

A STUDY OF INDIAN ECONOMICS

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PREFACE

THIS book is intended to be an introductory manual for those who wish to make a serious study of Indian Economics. It has been written from the standpoint of the scientific inquirer, and is, the author believes, free from political bias. An attempt has been made throughout the book to represent the different sides to every question in the fairest possible manner. The author has purposely refrained from discussing some important practical problems which he intends to deal with in a second volume.

The author has tried to avail himself of the best available sources of information in respect of the various subjects dealt with in the book. He takes this opportunity to express his gratitude to the authors, editors, or publishers of all publications from which he has borrowed any matter. He is especially grateful to Mr. J. M. Keynes, M.A. of Cambridge, for many valuable suggestions relating to Indian currency.

The book is being published in a hurry, and some typographical errors will perhaps be found in it, for which the author craves the indulgence of the reader.

LONDON, *June*, 1911.

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CHAPTER I

INTRODUCTORY

THE subject of Indian Economics presents many difficulties to the student which it may be useful to note at the outset.

Obstacles
to the study
of the
subject:

The first and the most serious difficulty is found in regard to the applicability of the principles of General Economics to Indian conditions. There was a time when such principles were believed to be of universal application, and the truths which Economics inculcates were regarded as absolute truths, like those of the physical sciences. Some economists, however, early realised the limitations of the science. Mr. Bagehot went so far as to declare that the doctrines of English Political Economy had little validity outside England. He very properly called the English system of Economics "the science of business, such as business is in large productive and trading communities."¹

Applica-
bility of
economic
principles.

Economics, as it is taught in the west, is based on a number of assumptions, conscious or unconscious. When we examine these assumptions, we find that many of them are valid in India only to a very

¹ Bagehot, *Postulates of English Political Economy*, p. 7.

limited extent.¹ This being so, it would be wrong to import wholesale into India the economic conceptions of the west, and to apply them without modification or limitation to Indian conditions. But although the conclusions of General Economics may not, in all cases, be quite valid in India, the economic tendencies are none the less true. Human nature being the same everywhere, the same sets of

¹Mr. M. G. Ranade, in his *Essays in Indian Economics*, summed up the position of India in regard to the ordinary economic assumptions in the following words: "With us an average individual man is, to a large extent, the very antipodes of the economical man. The Family and the Caste are more powerful than the individual in determining his position in life. Self-interest in the shape of desire of wealth is not absent, but it is not the only nor principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited Competition except within certain pre-determined grooves or groups. Custom and State regulation are far more powerful than Competition, and Status more decisive than Contract. Neither Capital nor Labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed, and not elastic and responsive to change of circumstances. Population follows its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons. In a society so constituted, the tendencies assumed as axiomatic, are not only inoperative, but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or of the sun to get cold, as reasons for our practical conduct within a reasonable distance of time." Mr. Ranade wrote about twenty years ago, and since then the situation has undergone considerable change; but his description of the state of things remains true to some extent even at the present moment.

causes always tend to produce, under given circumstances, similar sets of effects. And as Indian conditions tend more and more to approach the conditions of the west, the western economic theories become more and more applicable to Indian affairs. It will not do, therefore, to brush aside the theories of General Economics as absolutely useless for our purposes. What is needed is to apply those theories to Indian matters with such modifications and limitations as the differences in the circumstances may suggest. The economic phenomena of India must be studied separately, but they must also be considered in their relation to, and dependence upon, economic phenomena outside the country.

The second difficulty arises from the fact that India is at the present moment in a state of economic transition. The older habits and customs are being modified by the impact of western ideas and ideals. New circumstances are bringing about changes in the social and economic life of the people. In fact, the conflict between the past and the present is now the dominating condition. The influence of the west is not, however, uniform throughout the country, so that we find industrial India standing side by side with agricultural India. Economic phenomena are complex everywhere, but this fact of transition introduces an additional complexity into the economic problems which present themselves for solution in India.

Complexity
of Indian
economic
phenomena.

Another obstacle with which the student is often faced is the absence of reliable data. The Blue-books and Papers published by the various depart-

Want of
reliable
data.

ments of the Government form his only source of information. But he cannot always depend upon such information, for the agency by which the statistics are collected is hardly trustworthy, and the method employed in their presentation is often unsatisfactory. Much care has, therefore, to be taken in the use of these statistics, and unless that is done the student runs the risk of being led away into wrong generalisations and conclusions.

Personal
sentiment.

Personal sentiment is another great obstacle to the proper study of the subject. To make the study fruitful, absolute regard for truth is essential in the investigation of economic phenomena, and personal likes and dislikes must be wholly set aside. Unfortunately, the position in India is such that those who take part in economic discussions often identify themselves with this or that party, and thus find it difficult to recognise and appreciate the whole truth.

These are some of the reasons which account for the fact that although many capable men have dealt with the details of Indian economic facts, yet very few have attempted to grasp the principles or to explain the facts by the aid of theories. It is a matter for great regret that the study of such an important subject has scarcely been pursued in a scientific spirit. The late Mr. Justice M. G. Ranade brought his keen intellect, wide knowledge, and deep insight to bear on the study of the subject, and a portion of the results of his study was given to the public in the shape of his speeches and essays. But they were merely an earnest

of what the people expected from him. Unfortunately, his premature death deprived the country of the services of one of her best and ablest sons.

In the following pages an attempt will be made to deal with the subject in a systematic manner. The prevailing method and arrangement will be followed, with such modifications as the differences in the social and economic organisation suggest, and the theories of General Economics will be examined in the light of Indian facts. No one, I am sure, will expect an exhaustive and satisfactory treatment of the various questions of Indian economics in a small handbook like this. My object is merely to make the reader acquainted with the general economic phenomena of India so as to help him in pursuing a fuller and more detailed study of the subject.

CHAPTER II

THE NATURAL ENVIRONMENT

MAN is ultimately dependent on nature in every aspect of his life. His economic life, in particular, is closely related to the facts of nature. The physical environment is, in reality, the basis of all economic activity. In the case of India, therefore, as in that of any other country, a study of economic phenomena should start from an investigation of the physical factor. This may be considered, for our purpose, under the five heads of the geographical location, the geological structure, the climate, the flora and fauna, and the facilities of communication.

1. GEOGRAPHICAL SITUATION

Extent.

India extends north and south from latitude 8° to latitude 38° , and the extreme points on the west and the east are situated respectively at longitude 66° and longitude 100° . It comprises an area of 1,773,168 square miles. The area of India is about fifteen times that of Great Britain, and nearly one-sixth of the total inhabited area of the globe.

Boundaries.

The range of the Himalayas, with its snow-clad

peaks penetrating far into the sky, forms the northern boundary of this vast country. On the north-west and the north-east also it is bounded by lofty mountains which prevent ingress or egress except through a few narrow passes and defiles. On every other side the boundary is the sea.

Thus situated, India forms a unit by itself, separated as it is by nature from the rest of the world. But within its own borders the country presents so many marked differences in physical features that it is often described as a continent rather than a country.

Natural
divisions :

Just below the Himalayan range of mountains, which is the most striking feature in the geography of India, lies the sub-montane region with its dense forests and an inhospitable climate. Next comes the great plain of Northern India, from about 150 to 300 miles in width, and watered by three great systems of Himalayan rivers,—the Indus, the Ganges, and the Brahmaputra. Broadly speaking, the western half of this plain may be described as dry and sandy,¹ and the eastern half moist and water-logged. To the southward lies the peninsula, consisting of a rugged plateau separated from the north by the Vindhya range, and flanked on the west by the steep hills of the Western Ghats and on the east by the Eastern Ghats which gently slope into the Bay of Bengal. This plateau is of an average height of 1500 feet, and is cut into a few deep valleys through which five great rivers

Northern
India,

Peninsular
India.

¹ These features reach an extreme point in Sind and the desert of western Rajputana.

carry their waters to the Arabian Sea and the Bay of Bengal.

2. GEOLOGICAL STRUCTURE

Geology of
India

in ancient ages,

India, in the ancient geological ages, was very different from what we find her now. Geologists say that in the earliest period she was represented by the southern peninsula and was connected with Africa by land; while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features. Finally, as the result of a slow process of geological evolution extending over thousands of years, she acquired her present shape and physical characteristics. These successive formations have left their marks on the physiography of India, and they may be grouped under six heads: (a) Achaean, (b) Vindhian, (c) Gondwana, (d) Basaltic, (e) Tertiary and Cretaceous, and (f) Alluvial. As, however, a detailed examination of these formations is not necessary for our purpose, we shall content ourselves with a general description of the various kinds of soils and minerals which owe their existence to them.

in the modern
age.

Soils:

The most extensive, and agriculturally the most important, tracts are the alluvial. They comprise the greater portions of Sind, Gujrat, Rajputana, the Punjab, the United Provinces, Bengal, extensive tracts in Assam and Burma, the Godavari,

Krishna, and Tanjore districts of Madras and Alluvial strips extending along the eastern and western coasts of the peninsula. Alluvial soils also fringe the courses of the rivers in many other places.¹

Alluvial soils differ in different parts of the country in respect of their physical as well as their chemical properties. Generally speaking, in north-western India the soils are porous, dry, and, in some places, sandy. In Bengal, the soils are more compact, less coarse, and moist. The soils in the deltas of Peninsular India are non-porous, clayey, and of dark colour. The chief advantages of porous and light soils are that they are easily worked by the plough and easily permeated by water. They lead to great fertility of the land in places where the atmosphere is moist. But their great defect is that they allow the water to sink into the lower strata, and are unsuitable for the growth of those kinds of plants which require the retention of a great deal of moisture about their roots; and thus they cause infertility of the land in those parts in which showers are not frequent. The alluvial soils are, on the whole, rich in chemical properties. Phosphoric acid, potash, lime, and magnesia are found in sufficient amounts, but nitrates are often in defect. In some places, however, barrenness results from an excessive accumulation of magnesia and soda salts on the surface. A great variety of *rabi* and *kharif* crops is grown on alluvial soils.

¹ *Imperial Gazetteer of India*, vol. iii. p. 8.

Trap soils.

Next in importance are the trap soils which cover the whole of the Deccan and considerable parts of the Central Provinces, Hyderabad, and Kathiawar. On the uplands and the slopes of hills, the soils are porous and light and are generally poor. The chief crops of these areas are millets and pulses. In the lowlands the soils are thicker and darker-coloured and more fertile. They are suited to the growth of cotton, wheat, millets, and pulses.

Black cotton soils.

In portions of the Deccan trap area is found the black cotton soil or *regar*, which possesses an almost inexhaustible fertility. This soil is the product of the decomposition of lavas. It is of a dark colour and is exceedingly compact and tenacious. It is highly retentive of moisture and rich in chemical properties. The kind of crops most suited to these areas is the *rabi*, but the *kharif* crops are also grown in many cases. Cotton, wheat, linseed, and millets are the chief crops. Soils akin to the black cotton soil of the Deccan are found in the river-valleys of a few other districts in Bombay and Madras.

Crystalline soils.

So much about the special varieties of soils. The rest of India may be described as the "crystalline soils tract." But these soils differ so much from one another in the different provinces in regard to their physical and chemical characteristics that it is hardly fair to put them all in one class. They are usually sterile when they occur on the uplands, but the clayey and brownish loams of the lowlands are fertile. The better kinds of such soils are suited to a great variety of crops, the

most important being rice. The reddish-coloured laterite soils of certain districts in Bombay are rather infertile, being highly porous and dry. The crystalline soils generally are deficient in the nitrates and phosphoric acid.

In the midst of these varying features one characteristic is found to be common to almost all soils, viz., their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity in Indian agriculture.¹

Such is the surface of the earth as we find it in India. It is needless to say that it is of the greatest importance in the economic life of her people, whose material and moral welfare is indissolubly bound up with the soil. But of equal importance is what lies beneath the surface. The wealth of a nation in modern times corresponds, in a large measure, to its output of economic minerals.

The mineral wealth of India has not yet been fully ascertained; but judging from the amount of actual production, her mines and her possibilities as shown by investigations, we may say that India is rich in mineral resources.² These are widely

Mineral
resources:

¹ In this respect, Indian conditions differ widely from those of England, where, on account of the presence of an excessive amount of moisture in the land, drainage is the most essential thing in cultivation.

² Mr. V. Ball, in his introduction to the *Economic Geology of India*, quotes the statement of Megasthenes that "India has underground numerous veins of all sorts of metals," and regards it as entirely true. He goes on to say, "Were India wholly isolated from the rest of the world, or were her mineral productions protected from competition, there cannot be the least

distributed over almost the whole of her area, and it will perhaps be useful if we briefly describe the chief kinds.

Coal.

Coal is the most important of the mineral products of India. Its quantity is large and the quality is good. It is found chiefly in Bengal, Assam, and the Central Provinces, and in smaller quantities in Burma, Central India, the Punjab,

Iron.

Madras, Kashmir, and Baluchistan. Iron¹ ores of a superior quality are to be found in abundance in various parts of India. The chief iron areas are Barakar, Chaibassa, and Itori in Bengal; the northern and eastern districts of the Central Provinces; the eastern half of Central India; Mahabaleswar and Malwa in Bombay; and Mysore. It is also found in small quantities in the Punjab and the United Provinces, Kashmir and Rajputana. At present, however, it is nowhere worked to any considerable extent except in Barakar in Bengal; but it is hoped that there will be a great expansion of the production and manufacture of iron in the near future.

Petroleum.

Petroleum oil is found chiefly in Assam, Burma, and Baluchistan, and an inferior quality in certain

doubt that she would be able, from within her own boundaries, to supply very nearly all the requirements, in so far as the mineral world is concerned, of a highly civilised community." (V. Ball, *Economic Geology*, p. xv.).

¹ The importance of iron and coal in the economy of a country is immense. The dominant industrial position of England is due, in a large measure, to her possession of an abundance of these minerals. Coal is important not only as ordinary fuel, but as the indispensable requisite in all productive industries.

districts of the N.W. Frontier Province. The petroleum resources of India are confined to the two systems of folded rocks on the eastern and western Himalayas. Rock-salt is obtained in large quantities in the famous Salt Range and in the Kohat district of the Punjab. Tin is found only in lower Burma and in the Hazaribagh district of Bengal; but the total quantity of output is not large.

Rock-salt.

Tin.

Of the materials used for agriculture and the chemical industries, saltpetre is the most important. The natural conditions for the production of saltpetre in Behar, which is the chief source of the compound in India, are ideal, but the production is now diminishing. India is very deficient in her supply of phosphates. The only deposit worth noticing is in the Trichinopoly district of Madras. The export of phosphates in the form of bones is a circumstance to be greatly deplored. Potash salts are very rare. Gypsum, alum, and sulphur are obtainable in several parts of the country. Borax is obtained from Kashmir and Tibet. Soda salts are obtained from the soil in various parts of the country.

Materials for industries.

India was, in ancient times, famous for her precious metals. At present her production of these is not large, though it is still considerable. The most important of these is gold, which is found in large quantities in the Kolar field in Mysore. Some amount is also found in the mines of Hyderabad and several other places. Besides, in all the Provinces of India small quantities of gold are

Gold.

- obtained from river gravels by the indigenous process of washing. Both copper and lead are widely distributed over the whole of India. Copper is found chiefly in Bengal, and also in several places in the Central Provinces, Rajputana, Southern India, and at various places along the Himalayas.
- Copper.**
- Lead.** Lead occurs in Bengal, Central Provinces, Rajputana, the Karnul district in Madras, and certain districts in Bombay. In some places, silver and zinc have been found associated with lead.
- Silver and zinc.**
- Aluminium.** Of recent years, aluminium has been discovered to occur in abundance in Burma and the whole of Peninsular India, and it is believed that this industry has a great future before it.
- Manganese.** Manganese occurs in such abundance in the Central Provinces that India now takes the second place among the manganese-producing countries of the world. It is also found in certain parts of Bombay, Madras, Hyderabad, Burma, and Chota Nagpur.
- Mica.** Mica is one of the most important mineral products. India turns out more than half of the total mica supply of the world. The main source of production is in the Hazaribagh and Gaya districts of Bengal. It also occurs in the Nellore district of Madras.
- Cobalt.** Cobalt is found in Rajputana, and nickel is obtained from the gold-fields of Kolar.
- Nickel.**
- Precious stones.** Various kinds of precious stones are to be found in different parts of India, important among them being diamond, ruby, and sapphire. Diamonds occur chiefly in Madras, the Central Provinces, and near Panna in Central India. Ruby-mining is a
- Diamond.**
- Ruby.**
- Sapphire.**

very profitable and flourishing industry in Upper Burma. The chief seat of sapphire is Kashmir, but the mines are said to be exhausted.

Besides these minerals, there are various kinds of miscellaneous minerals. Stone also is important, it being the chief material used for building and ornamental purposes.

Numerous hot and mineral springs are found in different parts of India, but their neglect is a curious feature in the situation. As instances may be mentioned the hot springs at Manikarn in Kulu, the sulphur springs at Lasundra in the Kaira district and at Vajrabai in the Thana district of the Bombay Presidency, and other springs along the foot-hills of the Himalayas.

3. CLIMATE

The climate of any place is determined by various factors, the chief among these being its latitude, altitude, proximity to the sea, and position in regard to the prevailing winds. India is such a vast country that its parts differ widely from one another in respect of each of these factors, giving us sharp contrasts in climatic conditions.

Excluding the Himalayas,¹ which act as a climatic barrier in shutting out the cold winds of

¹The Himalayan range exercises the greatest amount of influence on the physical condition of India, and on the moral and economic life of her people. Not only does it act as a climatic barrier, but it is the perennial source of all the great rivers which moisten the parched lands of Northern India and give inexhaustible fertility to the soil.

Central Asia and keeping within the borders of India the vapour-bearing winds of the south-west monsoon, the country may be divided, for meteorological purposes, into two parts: Peninsular India and Northern India.

The
Peninsula,—
variations
slight.

The whole of the Peninsula falls within the Tropics and has a hot climate, the variations of temperature between summer and winter being small. The coasts have an even smaller range of temperature, and the atmosphere there is usually cloudy. These features are specially observable on the windward coasts, and they diminish with increasing distance from the sea.

Northern
India,—

severe heat
and extreme
cold.

Almost the whole of Northern India lies beyond the Tropic of Cancer, but here the climatic conditions are more complex. In technical language, the climate may be described as continental. The severity of heat or cold and the amount of moisture present in the air, however, differ greatly in the different provinces and in different seasons. In the Punjab and the North-western Frontier Province we find bitter cold in winter and extreme heat in summer. As we travel eastward the severity both of heat and of cold steadily diminishes. In Bengal and Assam, the winter is mild and the summer is moderately hot. Again, Sind, the Punjab, and Rajputana are exceedingly dry, while the atmosphere of Assam and of East Bengal is always saturated with moisture.

Altitude tempers the heat of low latitudes. Up on the hills, it is delightfully cool and refreshing even in midsummer, but beyond a certain point the excess of cold forbids human habitation.

These are the general features of the climate of India, which are, however, to a large extent disturbed by the periodical or monsoon winds, of which we shall speak presently.

The Indian year is divided into six seasons; but, for economic purposes, it may be divided into two—Winter and Summer,—the latter being subdivided into dry summer (April, May, and June) and wet summer (July, August, and September). This alternation of the seasons is of the greatest importance in the economy of Indian life, as it leads to an alternation of the meteorological conditions, and thus gives rise to the most momentous results. In winter, dry land winds prevail over the greater part of India, while in summer we have winds of oceanic origin, with high humidity, much cloud, and frequent rain. This alternation is due to a difference in temperature and atmospheric pressure in different regions.

The whole of India lies within the belt of the northern trade-winds. Under normal conditions, therefore, we should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year. During the other half, the wind movement is modified because of the presence of the continent of Asia near the equator. This disturbance of the air-current is due to the fact that land and water differ greatly in their behaviour regarding absorption and radiation of heat. In April and May, the plains of Northern India become very much hotter than the water of the Indian

The seasons :

Winter,
dry summer,
and rainy
summer.

The
monsoons.

Ocean near the equator; and, consequently, the pressure becomes much lower in the former region than over the equator. The heated air rises and the cooler air from near the equator rushes in to take its place. Thus an air-current is established in the lower strata of the atmosphere from the south towards the north. Just at this time, south of the equator, the wind blows as a south-east trade-wind. As it reaches the equator, it finds the barometric pressure higher there than in Northern India. It then swirls round and blows as a south-west wind, accelerating the air-movement which has already begun from the equator towards India. This is the south-west monsoon. Being of oceanic origin, the wind is laden with moisture, and, as it moves along, it drenches the parched lands of India with rain. The south-west monsoon usually establishes itself in Bombay and Bengal early in June, and before the end of the month it extends over the whole of Northern India.

South-west
monsoon.

Two
currents:
Arabian Sea
current,
Bay of
Bengal
current.

The south-west monsoon reaches India in two currents—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, the Punjab, and a part of the Central Provinces, and the latter to the rest of India and to Burma. India gets nearly 90 per cent. of her annual rainfall from the south-west monsoon. This monsoon usually continues till September.

In October and November, the temperature over the land in India becomes lower than that over the sea near the equator; consequently, the barometric pressure is higher, and winds now begin to blow

towards the equator. This is often alluded to as the north-east monsoon, but it is, in reality, the normal north-east trade-wind. Being of land origin it does not contain much moisture, and is, therefore, called the dry monsoon, in contradistinction to the south-west monsoon, which is wet. The little moisture which it contains is really the residue left by the south-west monsoon, which has been prevented by the Himalayas from passing out of India. The north-east trade-wind picks up a considerable amount of moisture during its passage over the Bay of Bengal, and gives rain to the south-eastern districts of Madras. This north-east wind is thus of great economic importance to Madras, although the total quantity of rain which India gets from it is small. Some amount of rain also falls in the Punjab during the winter months.¹

North-east
monsoon.

The amount of rain that falls in India varies from year to year. It depends on the force and direction of the air-current. The quantity which any particular part of the country receives depends on the configuration of the surface of the land, on its situation with reference to the winds, and on any other factor which causes reduction in the temperature of the air. For instance, while a large amount of rain falls in the coast districts of Bombay, the table-land of the Deccan and Southern India gets very little rain from the south-west monsoon, the Western Ghats acting as a barrier to the passage of the vapour-bearing winds. Where, on the other

Amount of rain
determined
by—

Situation,

¹ The exact cause of this rainfall has not yet been ascertained, but it seems to be due to local storms.

hand, no such obstacle is offered to the passage of the monsoon current, the clouds travel far into the interior of the country. The east coast of Madras does not receive much rain from the south-west monsoon, for it does not lie in the path of the winds, their direction being north-easterly. Again, any cause which cools the air-current leads to a condensation of water-vapour and to the fall of rain.

Height,

Moisture
of air.

Importance
of rainfall.

Thus rainfall is abundant on the mountains, while it is scarce in deserts where the atmosphere, being hot, is capable of holding in suspension a large amount of water-vapour. Forests keep the atmosphere cool and thus help the fall of rain.

The success or failure of the crops depends entirely upon the amount, distribution, and time of occurrence of the monsoon rains. In European countries, the variations in rainfall may increase or diminish the abundance of a crop, but in India they produce far greater consequences. In one year rainfall may be so abundant that harvests are plentiful, in another an almost total failure of the rains may lead to a severe famine involving the loss of thousands of lives. The prosperity of the country mainly depends on the monsoons, and natural water-supply is the chief factor determining the density of population and the state of civilisation in any particular part of India.

Influence of
climate on
physique
and
character.

The climate of the country affects not only the productivity of the land, but the physique and character of the people. A hot and moist climate tends to cause much fatigue after moderate exertion and a general ill-defined condition of debility. It thus

produces a disinclination to hard work. Various kinds of tropical diseases also render the body weak and reduce the longevity of life. The cumulative effect of all this on the people is to produce a lack of the energy and strength needed to develop the best in themselves and in the resources of the country.

4. FLORA AND FAUNA

The geographical position of the country and its climatic and geological conditions have an important bearing on the vegetable and animal life of India. The large extent of its area and a great variety in physical features and climate, combined with the natural fertility of the soil, enable the country to produce almost every kind of vegetable life. Here we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are: rice, coffee, cocoa, sugar-cane, cinchona, jute, spices, india-rubber and gutta-percha; pineapple, bananas, and other kinds of tropical fruits. The chief sub-tropical products grown are: cotton, tobacco, opium, and tea. Of the products of the temperate zone, the following may be mentioned as the more important: wheat, maize, barley, pulses, potatoes, hemp and flax, and various kinds of fruits. Besides these, many miscellaneous articles are found, such as a large variety of oil-seeds, gums, timber, and indigo.

Vegetable
life.

Tropical,
sub-tropical,
and temper-
ate-zone
products.

Animal life:

Animals are of great use for purposes of cultivation and draught. At one time India possessed a fairly large supply of good and serviceable cattle. But of late there has been a great deterioration in the quality, and diminution in the quantity, of live stock. The want of good cattle is a great drawback in the improvement of agriculture. Cattle-rearing is difficult in those parts of the country in which rainfall is large, because the rain-water washes away the salient constituents which are essential to the health of the cattle. There the animals do not grow up to a good size and strong. For this reason, horses are rare in Lower Bengal, the Carnatic and Coromandel coasts, and Lower Burma. In the drier parts, on the other hand, such as Baluchistan, the Punjab, Rajputana and Kathiawar, very good horses are found. The most important of the Indian animals are bullocks, which are used almost everywhere for the plough as well as for carrying loads and drawing water. Buffaloes also are used for similar purposes in many parts. The cow and the she-buffalo are highly useful in almost every part of the country, as milk and *ghee* are among the chief articles of food consumed by the people. Sheep and goats are found in every province. The donkey is a very useful animal, especially in Northern India. The camel is plentiful in the sandier parts of the country, and is a very useful animal for carriage. The region in which good cattle is reared includes the Punjab, Kashmir, Rajputana, and Kathiawar, where rainfall is not excessive.

Animal products.

Products obtained from animals, besides milk, are

wool, wax, and ivory, all of which are articles of utility and in demand.

Of the aquatic products fish, of course, is the most useful. The pearl fisheries of the Indian Ocean are also very important from the economic standpoint.

Aquatic
products.

5. FACILITIES OF COMMUNICATION

The flatness of the surface makes communication easy in the plains of Northern India. Roads and railways can be constructed here without much difficulty. The Ganges, with its numerous tributaries and branches, furnishes some thousands of miles of waterways, which are of immense economic importance. The Brahmaputra also in its lower course affords some facilities of transport. The Indus and its tributaries are navigable by small boats, and by steamers during a part of the year. In the southern half of the country, the nature of the surface has placed great impediments in the way of communication. Roads are not easy of construction, and railways have become possible only in certain parts of the peninsula, and even there only with the aid of much engineering skill. The rivers also are not quite so useful as waterways, all of them being too impetuous in times of flood and too scantily supplied with water at other times.

Communica-
tion easy in
Northern
India,

but difficult
in the
peninsula.

The long sea-board of India offers facilities of communication between the coast districts of the country. The number of natural harbours, however, is few, and during the monsoons the Indian

The sea,
the great
highway.

Ocean becomes exceedingly rough. But in spite of these disadvantages, the sea has now become a natural highway connecting India with the other parts of the world.

Natural
advantages
many, dis-
advantages
few.

Dependence
on nature
not absolute.

Natural
obstacles
surmount-
able.

We have now finished our brief survey of the physical environment in India and its relation to the economic aspect of the life of the people. We have noted the many natural advantages which the country enjoys and the few difficulties it labours under. It is necessary to recognise the dependence of the people on nature; but it would be a mistake to suppose that this dependence is absolute. Man can, in some measure, modify his environment. The people of India can, by their intelligence and knowledge, control the forces of nature to a considerable extent. Let us try to understand this point clearly.

The productiveness of the land depends on the fertility of the soil. But natural fertility can be increased by the effort of man and decreased by lack of proper care. Wasteful cultivation may turn the best land into the poorest; and the worst land can be converted into the most fertile by the application of proper manures and the adoption of a well-regulated method of agriculture. In mining, the extension of knowledge and inventiveness may lead to the artificial manufacture of new and useful metals, supplementing and even superseding the use of the minerals which are now known to the world. As for the climate, it is essentially unalterable; but even here modifications may be secured in various ways. Afforestation may lead to an increase of

rainfall where it is at present scanty, and irrigation may be so practised as to carry water to any place where it is wanted. Extensive drainage works, the reclamation of swamps and marshes and the re-excavation of silted rivers may also affect for the better the climate, the health of the people, and the moisture conditions of the land. The effects of extreme heat and cold may be mitigated by various artificial means. The enervating influence of the climate on body and mind may be counteracted by the adoption of proper care and a scientific mode of living.

The flora and fauna of the country are determined partly by the physical conditions and partly by the will of man. Scientific knowledge may be applied to the improvement of the existing vegetables and fruits, and new sorts may be made to grow. So also, the breed of cattle may be improved and certain new kinds may be introduced.

As for communication, science has surmounted most of the difficulties which nature placed in certain parts of the country. Railways have penetrated into places which would otherwise have remained unapproachable, and distance is no longer a bar to communication. The formidable ocean now affords the easiest and cheapest means of transport.

CHAPTER. III

THE SOCIAL STRUCTURE

THE POPULATION

NATURE and man are the two chief agents in the production of wealth. In the last chapter we described the part played by nature in the economy of Indian life. The present chapter will be devoted to a brief discussion of the human element.

Population.

The total population of India is about 315 millions or about six times as large as that of the British Isles, and nearly one-fifth of the population of the whole world.¹

Density.

The average density of the population is 184 to the square mile,² which is very much the same as in France. But in India, distribution of the people is not even throughout the country. The density of population depends on several factors, the most important of which are rainfall, the climate, the

Local
distribution
unequal.

¹ Of this a little less than four-fifths is in British India and a little more than one-fifth in the Native States.

² Sir A. J. Baines points out (in an article in the *Journal of the Royal Statistical Society*, December, 1904), that, in the case of India, "the mean density figure is in itself peculiarly devoid of significance."

soil, the configuration of the surface, and the state of civilisation. As a rule, the population is the densest in those parts in which there is an abundant supply of water, either natural or artificial; but there are exceptions. The greatest density is to be found in the delta of Bengal, which has an average population of 552 to the square mile, and the next densest tract is the Gangetic plain of the United Provinces. The density is the lowest in Upper Burma, the North-western Frontier Province, and Baluchistan. Between these extremes there is every shade of variety.

The people for the most part live in villages. In England¹ more than half the people live in towns of over 20,000 each, in India only one-twentieth.²

Population
mainly
rural.

There are only 29 towns with a population of over 100,000. The number of towns each containing populations varying from 5000 to 990,000 is 2224. But the number of villages is no less than 730,000. The reason for this is to be found in the fact that the people are in the main agricultural. Though the rural people may be less progressive in their thoughts, ideas, and habits than the town people, there is no antagonism between life in towns and that in villages. There was a time when the urban population was much larger and the social importance of the towns greater. With the decay of the industries, the towns sank in importance, and there

Towns com-
paratively
few.

¹ The proportion of urban population of England was 71·3 per cent., and that of the United States 33·3 in 1901 (Board of Trade Yellow-book, 1911).

² In Bengal, only 2 per cent. of the people live in cities.

was a tendency for a larger and larger proportion of the people to become rural.¹ Of recent years, however, there has become discernible a tendency working in the opposite direction; and towns are once more beginning to take their proper place as centres of thought, culture, and industry in the life of the nation.

Division into
sexes.

The division of the people into sexes is important from the economic standpoint, for a very large proportion of the female sex in India can hardly be regarded as producers of wealth at all. The social customs prevent females, of the higher and middle classes in particular, from participating in the production of wealth, at least in a direct way. Taking the country as a whole, there is a slight excess of males over females. Among the higher classes, however, the female portion slightly preponderates over the male.

Distribution
according to
age.

Another important fact about population is distribution according to age. The old and the very young are consumers of wealth, but not producers. Roughly speaking, the limit for active work may be put at the ages of 15 and 60. The number of persons between these limits are about 17 millions, or 55 per cent. of the population. If we deduct from this a large proportion of the females and the infirm and the sick persons, we get the total number of able-bodied persons who may participate in the production of wealth, or, in other words, who form the labour-supply of the country.

Health.

The most important fact to be considered when

¹ The late Mr. Justice M. G. Ranade bitterly complained in his *Essays and Speeches* of this progressive ruralisation of the people.

dealing with the human element in production is the health of the people. The efficiency of labour is greatly impaired by the general ill-health of the people in most parts of the country. This is due to unfavourable climatic conditions, insufficient nutrition, the want of pure water, insanitary surroundings, artificial modes of living, and unhealthy social customs. All these factors render the body weak and less able to resist disease. To these must be added the epidemics which sweep over the country every now and then, sometimes causing great havoc and devastation.

So much about what may be called the status of the population. But the movement of the population is also very important. Changes are affected by three factors: birth, death, and migration. We shall briefly notice each of them.

Dynamics of
population.

Birth depends on marriage and fecundity. In India, marriage may be said to be almost universal. Roughly speaking, we may say that religion and social customs favour the marriage almost of every person before the age of puberty is reached. Consequently, the hypothesis of Malthus that marriages increase with prosperity and decrease with adversity does not hold good in India. As a matter of fact, improvident marriages are more frequent among the lower than among the higher classes. The proportion of celibates is much lower in India than in Europe and America. On the other hand, custom forbids the marriage of widows among the Hindus; and, moreover, as there is a great disparity in the ages of the husband and the wife, we find a higher

Marriage.

proportion of widows here than in European and American countries. The proportion of widowers also is a little higher.* The fecundity of marriage among the poorer classes is greater than among the middle and higher classes, and also among the Mahomedans than among the Hindus. This is due perhaps to the absence of prudential considerations.

Birth-rate. The average crude birth-rate in India during the last ten years was 38·5 per thousand of the population. No reliable figures can be obtained of the refined birth-rate, that is to say, of the births compared with the number of women of child-bearing age. But it may be said in a general way that women begin to bear children at an early age and also cease very early.

Death-rate. The increase or decrease of population depends not only upon the birth-rate but upon the death-rate. In India, the death-rate is abnormally high, as compared with the death-rate in other civilised countries. During the years 1899-1908 the average death-rate was 34·5 per thousand. In the modern civilised communities, the normal death-rate varies from 17 to 21 per thousand. This high rate of mortality in India is due to several causes,—famines, epidemic diseases, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage. In bad seasons the population usually decreases; while in good seasons there is an increase of population, this being due not so much to increased birth-rate as to the diminution in mortality. The mortality in towns is a little higher than in the country,

probably because of the greater congestion in the former.

Migration is another factor which affects the number of the population. Migration is of two kinds: internal and external. Internal migration, again, may be either from place to place or from occupation to occupation. Movement of the people from one province or district to another goes on continually. For instance, the factory hands in the Calcutta mills are all drawn from up-country. But even such movement is rarely, if ever, practised on a large scale. The conservative habits of the people, their love of home, their poverty, their lack of knowledge of the labour conditions in other parts, all tend to keep them tied to their native villages. One important exception, during recent years, has been the migration of a large number of people to the Canal Colonies in the Punjab.

The caste system and social customs used in days of old to prevent absolutely the movement of labour from occupation to occupation. The influence of caste and of customs is, however, growing less every day, and restrictions are gradually passing away; but even now the movement is very far from being free.

External migration may take the form either of emigration or of immigration. The former may serve as an outlet for the surplus population of the country; but the total actual number of emigrants from India is so small that, for practical purposes, they may be neglected.¹ The number of

¹ The present tendency of emigration is to fall in number. In 1900-1 the total number of emigrants was 26,508; but in 1908-9

immigration. permanent immigrants into the country is exceedingly small.

Increase of population. In the course of the last ten years the population of India has increased from 294 millions to 315 millions. The rate of increase has been a little over 7 per thousand per year. Now the question arises whether the population is increasing too fast. There are some thinkers who are alarmed at the rate of increase, and who believe that the pressure of population on the means of subsistence will soon produce great misery in the country. As a matter of fact, however, the population is not increasing as rapidly as in other civilised countries.¹ Moreover, as Prof. Seligman points out, the problem of population is not one of mere size, but of efficient production and equitable distribution. The real antithesis is not between population and food, but between population and wealth. If population increases, while the production of wealth remains stationary, greater misery will undoubtedly be the consequence. But if, on the other hand, wealth and productive efficiency are increased simultaneously with the increase of population, the country will be able to support a much larger population than it does at present. This is the view also held by Mr. E. A. Gait,

it was rather less than 12,000. These emigrants usually go to the British colonies (Mauritius, Natal, British Guiana, British West Indies, Fiji, etc.), and to Dutch Guiana as unskilled labourers (*Statistical Abstract for British India*, p. 227).

¹ The rate of increase in England and Wales was 12·17 per cent. during 1891-1901, and 10·91 per cent. during 1901-11. In India the rate of increase during 1891-1901 was only 2·4 per cent.

one of the editors of the *Imperial Gazetteer of India*,¹ who says, "Apart from the non-agricultural forms of employment which are rapidly growing in importance, it seems certain that, even in the most crowded tracts, more scientific farming would greatly increase the present produce of the soil. There are, besides, many parts, *e.g.* Burma, where, even under present conditions, ample scope remains for expansion; and many others, such as Western Rajputana, where, with the aid of irrigation, crops might be grown on what is now a sandy desert."

¹ Vide *Imperial Gazetteer of India*.

CHAPTER IV

SPECIAL FEATURES OF INDIAN SOCIETY

1. THE CASTE-SYSTEM

THE most striking feature in the structure of Hindu society is what is known as the caste-system. It is a very ancient institution, but when and how it first appeared it is impossible to say with any degree of certainty.

Origin. We find it vaguely alluded to in a few passages of the Vedas, and recognised in Manu's code, in the great Epics, and in the Puranas. In the Bhagavat Gita, Sreekrishna, the incarnation of the Deity, says, "I have created the four castes according to the qualities and occupations of their respective members." This seems to be the correct view of the origin of the system.¹

¹ M. Senart was perhaps right in saying, "Caste is the normal development of ancient Aryan institutions, which assumed this form in the struggle to adapt themselves to the conditions with which they came into contact in India." It appears quite probable that, being surrounded on all sides by hostile aborigines, the Aryans found it necessary to set apart the hardiest portion of the population for the exclusive occupations of war and government. Thus perhaps was formed the Kshatriya caste.

The essential feature of the system is that “birth determines irrevocably the whole course of a man’s social and domestic relations, and he must through life eat, drink, dress, marry, and give in marriage in accordance with the usages of the community into which he was born.”¹

Essential
feature.

Mahomedanism, in its pure form, inculcates equality among all followers of the religion and is opposed to the system of a hierarchy of castes. But in India the contagion has spread to the Mahomedans, among whom caste tendencies are

Caste tenden-
cies among
Mahomedans.

Then, as engagement in warfare was found incompatible with the performance of religious ceremonies and the acquisition of learning and the imparting of education, the most intellectual and selfless among the people formed themselves into a separate class. Thirdly, as the importance of agriculture, industry, and trade was realised more and more with the growth of civilisation, a third class began to devote their energies exclusively to those occupations; and lastly, the less cultured among the Aryans, together with the conquered tribes, formed the Sudra caste. In course of time, subdivisions of these original castes were made, and many new ones came into existence. In the earlier stages of national development, as M. Senart points out, the principles underlying the social structure of the Greeks and the Romans were the same as those of the Hindus. In India, however, the distinctions became rigid and stereotyped; in Europe, society was soon able to throw off the shackles.

A caste is defined in the *Imperial Gazetteer of India* as “a collection of families or groups of families, bearing a common name which usually denotes, or is associated with, a specific occupation; claiming common descent from a mythical ancestor, human or divine; preferring to follow the same calling; and regarded by those who are competent to give an opinion as forming a single homogeneous community.” How far this definition is correct it is not our business to discuss here.

¹ Vide *Imperial Gazetteer of India*.

visible. In some places, the social distinctions have become quite marked and well-defined.

The caste-system has undoubtedly many bad features, but it has some good points also which are not often appreciated by careless observers.¹ Whether good or bad, changed conditions have led to a modification of the system. Occupation is not now necessarily the indication of a man's caste. Members of different castes are now-a-days to be found in almost every occupation. Caste rules have now become less rigid than before, and the modern tendency is to eliminate from the system features which are unsuited to the economic organisation of modern society.

Caste-system modified.

Economic significance.

Limitation of competition.

Unsuited to large-scale production.

The chief economic significance of the system is that it fixes absolutely the supply of any kind of labour. The scope given for the play of competition thus becomes limited, and consequently the law of demand and supply is rendered either inoperative or oppressive in its operation. When there takes place any change in the economic world, labour is unable to adjust itself to the altered circumstances and suffers in consequence, sometimes very heavily. Wages and prices have very often to be regulated by custom or some other artificial means. Further, the institution of caste is ill-suited to large-scale production, in which minute subdivision of labour is essential, and which requires the supply of any

¹ The caste-system has undoubtedly conduced to the stability of Hindu society, and it would be absurd to regard it as a relic of uncivilised times. In the west the social distinctions are based on wealth; in India they depended upon the possession of intellectual and spiritual qualities.

kind of labour to immediately respond to the demand for it. The system, moreover, has its influence on the character of the individual. Where birth determines the whole course of a man's occupation, his capacities may not be put to the best use, and each profession may have to tolerate many persons who are incompetent or useless in that particular profession, but who may perhaps do better in some other.

Capacities not put to the best use.

Thus there results a great economic loss. But, on the other hand, much economic advantage ensues from the fact that every man inherits a certain amount of skill from his parents and unconsciously imbibes much of the technical knowledge from the atmosphere of the particular profession in which he is brought up. Another great merit of the system is that, by limiting the influence of competition, it stands forth as the protector of the weak. Everyone finds a place in the economic organisation—no one is absolutely helpless.

Inherited skill.

Caste the protector of the weak.

Whether the merits of the system are greater than its defects is a question very difficult to answer. But the prevailing opinion seems to be that the advantages are far outweighed by the disadvantages.

Balance of merits and defects.

An important institution connected with the caste-system was the caste-guild of ancient times. Each caste was, to some extent, also a trade-guild. As a trade-union it used to insist on the proper training of the youth of its craft, to regulate wages, to deal with trade delinquents, and to supply courts of arbitration for the settlement of disputes.

The caste-guild.

Its functions.

Its objects.

Its chief objects were to regulate competition among its own members, and to uphold the interests of the body in its disputes with other craftsmen. The decisions of the guild were enforced by social penalties or fines. The guild encouraged efficiency by means of rewards and discouraged inefficiency by social disfavour. It also exercised the functions of a mutual assurance society; and by finding employment for the unemployed and helping the poor and the needy, the guild-system avoided the necessity of a poor-law.

Caste-guilds compared with mediaeval guilds of Europe.

The caste-guilds of India were, in many respects, similar to the guilds of mediaeval Europe; but there were many points of difference. These latter were not endogamous, and there was no bar to the admission into the circle of outsiders who had learnt the business. The common occupation was a real tie and a source of strength, not a symbol of disunion in the different parts of society as in the case of the Hindu guilds. Lastly, the European guilds might expand and develop, while the Indian system was rigid and stereotyped.

Their importance.

There was a time when these caste-guilds were of the greatest economic importance. By their excellent organisation they largely promoted the production of wealth. The famous fabrics of rural India were developed under the supervision of these guilds. Caste-guilds as such are now to be met with only in a few places in India,¹ and even where they exist they do not exercise anything like their old influence. But there are trade- or craft-guilds in almost

Modern trade-guilds.

¹ The highly-developed guild-system at Ahmedabad still exists.

every part of India, the objects of which are similar to those of the craft-guilds of old, but which are rarely strong enough to perform their duties in a proper manner. The membership is not necessarily confined to one caste. The bond of union is not half so strong, and they lack the unity of sentiment and efficiency of organisation which ensure the success of the trades-unions of modern Europe and America.

The Mahomedans of India also have their trade-guilds, which are organised on principles similar to those of the Hindus. But the democratic organisation of Mahomedan society prevents these guilds from being stereotyped into castes. In some trades the guilds are well organised, and are strong enough to wield considerable influence over the members.

Mahomedan
guilds.

2. THE JOINT-FAMILY.

In India, the unit of society is not the individual but the family. Among the Hindus this family includes not only the husband, the wife, and the children, but many more members besides. The essential feature of the system is that the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member.

Family the
unit of society.

Consumption
in common.

The Hindu law of property is essentially different from the laws which regulate property in the west. In Europe and America ownership, as a rule, is single, independent, and unrestricted. In India corporate property is the rule, and absolute

unrestricted ownership is found only in a few parts of the country and in rare instances in the rest. The law in this respect is based on the joint-family system, which was, and to some extent still is, the backbone of Hindu society.¹

Originally, every Hindu family, and all its property, was not only joint but indivisible.² Now it has ceased to be so; but so long as partition does not take place, jointness is presumed, and every member has the right of enjoyment to the family property. The system is organised on the principle of subordination of all members to the head—not on co-ordination or equality of all members.

There is a great deal of divergence in the doctrines of the various schools of Hindu law.

Different
schools:
Mitakshara,

Dayabhaga.

The Mitakshara school, which governs the greater part of Hindu society outside Bengal, is more rigorous in its regard for the security of the joint-family than the Dayabhaga school, which governs Bengal proper. According to the former, ancestral property is owned and enjoyed by the members of a family as a whole, the share of each remaining unascertained until and unless there is a regular partition. The person who is the head of the family for the time being is only the manager, and has no right to sell or dispose of it in any way, except for the benefit of the family or for legal necessity. Dayabhaga, however, gives greater powers to the head of the family, and, according to recent decisions, he is considered as the absolute owner of the property, having full rights of disposal over it.

¹ Mayne, *Hindu Law*, p. 293.

² *Ibid.* p. 332.

As for self-acquired property, both the schools give the owner full rights to it.

This system has existed in India for ages, but is now in a state of decay. It is regarded as a blessing by some thinkers and as a curse by others. Looked at from an economic standpoint, it appears to have merits as well as defects. The chief merit lies in the fact that almost everyone can be sure of a bare subsistence, which is the first condition of economic advancement. Children are not liable to be cast adrift into the world at a time when their physical and mental capabilities are as yet undeveloped. They receive a start which is a great advantage to them in their race of life. The aged, the weak, and the infirm are also taken care of, and may be made useful members of society.

Merits of the joint-family system.

But, on the other hand, it should be noted that when the means of subsistence are secured without any effort on a man's own part, he loses the great incentive to work, and is apt to become lazy and dependent on others. Self-reliance—the great virtue without which no economic progress is possible—is thus discouraged. Economic freedom, which is such an important matter in the production of wealth, is also curtailed. Moreover, the burden of a large family makes a man afraid of undertaking risks and unwilling to launch on new ventures. He is thus in a manner prevented from making the best use of his capacities.

Defects.

Sometimes not only consumption but also production is found to be in common. Every member contributes by his labour to the production of the

Sometimes, production in common.

family wealth. In such cases, the members of the joint-family are like the members of a communistic or co-operative society, and the advantages of the joint system are secured without some of its usually attendant evils. The situation is reversed in instances in which only a few work and the rest depend on them.

The economic gain is in some cases greater, and in others less, than the loss. The system is believed by some to be a relic of the old patriarchal form of family government, and is now steadily losing ground.

Mahomedan
system.

The Mahomedans also generally live under the joint-family system, but among them there is no presumption of jointness. The bond of union, in fact, is not so complete as among the Hindus, and, consequently, the system is far less rigid. The Mahomedan law gives the owner of the property for the time being absolute dominion over it, whether such property be self-acquired or ancestral. He can dispose of it in any way he likes, provided that operation is given to the transaction during his lifetime. It is only in respect of dispositions by will that the donor's power is limited by the rights of his heirs.

3. THE LAWS OF SUCCESSION

Succession :

among
Hindus ;

There is no such thing as succession, properly so-called, in an undivided Hindu family governed by the Mitakshara law. The whole body of such a family constitutes a sort of corporation, and, on the

death of any member, the property devolves on the remaining members by survivorship and not by succession. Succession takes place only when property is separate. Under the Dayabhaga law, however, succession takes place even to the joint property. The whole of the property passes to the male children when there are any. If there be no male children, it passes to the next of kin.

Under the Mahomedan law, the property is divided, on the demise of its owner, among a larger number of heirs, many of the near relations obtaining shares even when there are male issue.

among
Mahomedans.

The law of primogeniture does not exist in India except in the case of ruling chiefs or in a few families where there is a special custom to that effect. Thus according to the Hindu as well as the Mahomedan law of inheritance, property, whether real or personal, is divided among a number of persons. The result of such division is that it prevents the accumulation of wealth in a few hands and enables a considerable number of persons to enjoy moderate wealth. It minimises the distance between the high and the low, and fosters a large middle class. Such a system is admirably suited in one respect to the industrial progress of a country, for it gives to a considerable part of the people something to start business with; but this amount not being large enough to live upon, most people are driven to work in order to be able to live in the standard of comfort proper to their social status. It fosters the growth of self-respect and the habits of self-help and self-reliance among a large class of

No primogeni-
ture.

Division of
property :
its advantages,

disadvantages. people. On the other hand, it hinders large-scale production for want of a concentration of capital; and in a country where the Joint-Stock and the Limited Liability Company systems are rare, it tends to arrest industrial progress.

4. THE VILLAGE SYSTEM

As we have already seen, the great body of the people of India is rural. It is so, not because the people do not know the art of building towns, but because the occupation of agriculture makes it necessary for the people to live in villages.

From the very earliest times, the village has always been the unit of administration in India. Here, as in all other countries of old, the people gathered together in villages for better protection and mutual assistance. The peculiarity of India, however, lies in the fact that a system of village communities prevailed here which lasted for many thousand years. Sir Charles Metcalfe gives an excellent description of these organisations, from which the following lines are worth quoting: "The village communities are little republics, having nearly everything they can want within themselves, and almost independent of foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down; revolution succeeds to revolution; Hindu, Pathan, Mogul, Mahratta, Sikh, English, are all masters in turn, but the village community remains the same."¹

¹ Sir Charles Metcalfe continues: "This union of the village communities, each one forming a separate little state in itself,

Village communities.

Sir Charles Metcalfe's view.

Although the system of village communities is now in a state of decay, it has not yet been entirely overthrown. It still exists in a state of greater or less completeness in many parts of India, especially in the Punjab and Madras. These villages are walled in, and the people live within them as compact groups. Each village has its arable land and grazing field just outside the limits of the inhabited area. This land, together with the dwelling-houses, is technically known as the village. Its constitution and ownership may change, but the village itself as a local feature always remains the same.

The village.

The original cause of the foundation of village communities is to be found in the co-operation of a number of persons for clearing the jungle and for defence against wild animals and neighbouring enemies. But the bonds which hold together the village landholders are not merely physical but social and economic.

Origin.

The bond.

There are two kinds of villages—the Raiyatwari and the Landlord- or Joint-village.¹ In the first, the village contains a number of cultivating holders who usually till the land themselves, but sometimes employ tenants. These holdings are separate units—they are not shares of a whole belonging to them all. The several holders are

has, I conceive, contributed more than any other cause to the preservation of the people of India, through all the revolutions and changes which they have suffered, and is in a high degree conducive to their happiness, and to the enjoyment of a great portion of freedom and independence."

Two kinds :

Raiyatwari,

¹ Vide Baden-Powell, *Land Systems of British India*.

distinct in interest, and the only bonds which unite them are locality, common subjection to the headman, and common services of the village artisans and menials. This form of village is universal in Madras, Bombay, Central India, and Berar; it also originally existed in the Central Provinces and Bengal.

Landlord-village.

In the landlord-village the holdings of the cultivating landholders are not separate units; they are parts of the entire area of the village which is owned by an individual or a family having the claim to be superior to the cultivating landholders. The proprietary body¹ is of common descent, and may consist of a large number of co-sharers. This co-sharing body rarely cultivates the land itself; more often, the land is cultivated by a subordinate body of tenants who pay rent to the landlord (or body of landlords).

Principles of sharing.

There are three principles according to which land is divided among the co-sharers: (a) The ancestral or family-share system (known as the *pattidari* system), by which each member of the co-sharing body takes the fraction of the whole which his place in the family 'tree' or genealogical table points out; (b) special customary system of sharing, e.g., sharing in equal artificial lots (called the *bhaiachara* system), sharing by ploughs, or with reference to shares in water, or shares in wells; and

¹ Sir Henry Maine thinks that property in land, as it is understood in Europe, is a comparatively modern institution, but Baden-Powell, a great authority on the subject, contests this view (*Vide* Baden-Powell, *Indian Village-Community*).

(c) the system of *de facto* holdings, by which what each now holds is regarded as the measure of his interest. The landlord-village system prevails in the United Provinces of Agra and Oudh, the Punjab, and the North-western Frontier Province.

Landlord-villages owe their origin to one of three principal sources. First, they may have been founded by single persons or grantees or revenue farmers; or they may have been founded by the dismemberment of the houses of ruling chiefs; or thirdly, they may have been created by tribal groups or colonist associations, as for instance, the Jats and the Rajputs.

In each of the Raiyatwari villages there is an official headman (called *patel*, *mandal*, or *reddi*). His office has always been regarded as of great importance. He often exercises petty magisterial powers, and also decides petty suits either as an arbitrator or as a civil judge. He also performs various duties of a general character, concerning the well-being of the village. But he has no responsibility for the revenue, except that of his own holding. He holds a hereditary position, and is remunerated by the grant of a plot of land. In the landlord-villages the business of the village is entrusted to a punchayet or council of village heads, the leading man among them being selected as the representative of the body and the headman. He is called the *lumbardar*, and is directly responsible for the revenue of the village.¹

Another officer of the village is the *patwari* or

Sources.

Village officers.

The Headman:

his functions
in Raiyatwari,

and landlord-
village.

The Patwari:

¹ There may be more than one *lumbardar* in a village.

his duties.

accountant. He is entrusted with many important duties. He has to keep the village accounts of revenue payments by the proprietors or co-sharers, and outstanding balances; of rent payments by tenants, and of items chargeable to the common expenditure of the village. He has to produce and keep the village maps, field-registers, and other records of landed rights, shares, and interests. He fills up the statistical returns of the crops sown and harvested, the number of cattle, and such other things. He has to take note of all changes that occur in the ownership of land. Lastly, he has to report at once to the tahsil any unusual occurrence in the village. Besides these officers, there is a watchman or *chowkidar* in each village, and, in some cases, one or two more officers.

Village
economy.

Each village constitutes an industrial unit, of which the chief feature is its self-sufficiency.¹ It is, to a large extent, independent of relations with the outside world, so far as its internal economy is concerned, for within its own boundaries the village possesses all the factors which are requisite for the supply of its few wants. The great bulk of the people is agricultural. The cultivators take lease of small plots of the village land either directly from government or from a landlord (or a body of joint-landlords), to whom they pay rent. They work the land themselves with the aid of their family members and sometimes also of hired servants. They supply the small capital from their own savings or

¹ *Vide* Sir T. Morison, *Industrial Organisation of an Indian Province*.

borrow from the village landlord or the money-lender. They are also themselves the managers, organisers, and experts of their petty farms; and they carry their produce to the market—which is held once or twice in the week—to exchange it for other commodities.

Besides the two classes of landlords and cultivators, there is a third class of inhabitants in the village composed of the artisans. The weaver, the blacksmith, the oilman, and the jeweller supply the needs of the small society, and are recognised members of the village community. The petty shopkeeper performs the important function of exchanging the different products. The money-lender—who also usually combines other functions, especially that of a wholesale grain merchant—is, by virtue of his position, a very important member.

Classes in the village.

The services of the artisans, etc., are very often paid for in kind. In the village economy there is very little competition¹ with the outside world, though within the village the motive of self-interest prompts everybody to find the best advantage for himself. Wages and profits are, to a large extent, governed by custom and are comparatively fixed and inelastic. Division of labour is carried to some extent, but as division depends on the extent of the market it cannot be carried very far. Labour is immobile; and what little capital there is in the village is locked up in the land.

The place of competition in village economy.

Division of labour.

Immobility of labour.
Want of capital.

¹ Sir Henry Maine says, "Competition, that prodigious social force, of which the action is measured by political economy, is of relatively modern origin" (*Vide* Maine, *Village Communities*).

Sense of unity.

The different classes in the village are conscious of the fact that each is dependent on the others, and that the interests of each class are bound up with those of the rest. Thus there grows up a strong sense of unity and solidarity which helps to preserve the integrity of the village.

Life in the village,

The villager lives a simple, and in years of good harvest, a contented life. There is very little wealth in the village, but the evils of capitalism are also absent. The cultivator or artisan knows little of the comforts and luxuries of urban life, and does not miss them. He knows that there are things higher than those of this world, and strives to attain them in the way which his religion and traditions point out to him.

changing.

Such is the village system in its pure form. But to-day it is hardly to be found in its entirety in any part of India. The economic conditions of the country are now undergoing a more or less complete transformation, and the village must necessarily change to keep pace with the march of events. The impact of western civilisation is also working a change in the ideas and ideals of the villager, and is making it impossible for him to retain his old simplicity of life.

5. STATUS AND CUSTOM

In India, every man is born into a certain status in society and family, and the whole course of his life is determined by such status. Custom was, in the ancient days, the supreme regulator of his actions

and relations in life. The influence of custom is, however, growing less every day. In India, as in every other progressive country, the movement is from status¹ to contract. Yet even now it may be asserted of a majority of the Indian people that their actions are governed more often by custom than by free competition. Mr. M. G. Ranade says, "There is neither the desire nor the aptitude for free and unlimited competition, except within certain predetermined groups or grooves. Custom and state regulations are far more powerful than competition, and status more decisive in its influence than contract."² The influence of custom, however, is not necessarily harmful. In many cases it is highly beneficial, for custom often stands forth as the protector of the weak against the strong. It furnishes an alternative principle to that of unlimited competition, which, while it makes the strong stronger, has often a tendency to extinguish the weak. On the other hand, competition helps in bringing out the best in man and nature, while custom not unoften hinders the process.

Influence of
custom

Under the Hindu as well as the Mahomedan administration, and, to a large extent, during the early days of the British rule, custom used to regulate rents. Later, however, competition tried to assert itself in the fullest measure. The government then realised that the effect of unlimited

on rents,

¹ Status may be defined as the position or standing of a man as determined, not by his own free will, but by circumstances over which he has no control. Status is opposed to contract.

² Vide *Essays in Indian Economics*, by the late Mr. Justice M. G. Ranade.

competition would be to injuriously affect the interests of the masses of the people and to entail great misery on them. They, therefore, decided to confine the operation of competition within reasonable limits; and the main object of their rent legislation has been to secure to the tenants the rights conferred by custom. Custom thus is still, to a large extent, the foundation of rents in India. The Ricardian doctrine of rent has practically no application here; and, consequently, the conclusion drawn from that doctrine, namely, that rent forms no part of the price of agricultural produce, is also inapplicable to the case of India.

on wages,

Custom was the chief regulator of wages in India till the middle of the last century. Nowadays, however, they are governed more by competition than by custom; but still they are not so elastic and responsive to changes of circumstances as in Europe or America. The fluctuations in the rates of wages are slight,—the deviations from the usual wage levels of any particular locality are always confined within narrow limits. In the remote villages, custom is still the chief factor in determining wages. The economic theory that wages depend on demand and supply of labour is as true in India as elsewhere, but the law finds a very limited scope for its operation.

on prices.

Prices used also at one time to be determined, to some extent, by custom. But nowadays they almost always depend entirely upon the relations between demand and supply. It is only in the most remote villages that custom is now found to exercise any considerable influence on prices.

CHAPTER V

PRODUCTION

1. GENERAL OBSERVATIONS

OF the factors of production, natural resources are, of course, of primary importance. India, as we have seen, is very rich in this respect. There is an abundance of fertile land as well as of mineral resources. The productivity of land, however, depends on rainfall, which is a very uncertain factor in the situation. Land is split up into millions of small plots, which are held by a numerous body of petty farmers. All land is subject to payment of rent.¹

Special conditions of

land,

Labour is plentiful and cheap, but ignorant and mostly unskilled. Movement of labour from place to place is very irregular, and that from occupation to occupation is rare. Competition, when it acts, affects the labourer injuriously. The labourer is diligent and sober, but poor, unenterprising, and unambitious. He possesses a natural quickness of

labour,

¹ The hypothesis of no-rent land is true only in countries where there exists an active competition among the landowners, and where the demand for land has not yet outstripped the supply of it.

intelligence,¹ but education has not taught him how to put it to the right use. He is poor, and often heavily indebted. He usually works on his own account, and takes upon himself the functions of the capitalist and the business manager, which he is unfit to fulfil properly. Division and differentiation of labour is carried only to a limited extent.

capital,

Indigenous capital is not only small in the country, but also shy.² Even where there is wealth, lack of enterprise often prevents the owner from investing it in profitable undertakings, for he does not fully recognise the necessity of taking risks, and has lost the habit of forecasting the future.

organisation.

Business organisation, which is perhaps the most important factor in the success of modern industry, has not yet been developed to any appreciable extent in India. Practical experience—the best school for learning business—has not taught the people how to manage big concerns and to properly discharge the multifarious and arduous duties of the modern entrepreneur. Industrial training and the acquisition of commercial knowledge have been, until recent years, most lamentably neglected. The value of co-operation and combination is not fully appreciated. Men of ability and character rarely engage in busi-

¹ Sir John Strachey says, "The agricultural classes are certainly not inferior in intelligence to the peasants of many of the countries of Europe" (*India, its Administration and Progress*, p. 394).

² This is believed to be the result of the misrule which the country groaned under in the eighteenth century, and which prevented the accumulation of wealth and dulled the desire of the people to improve their economic condition.

ness, and the result is that those who do, do not inspire the faith and confidence which is the cornerstone of modern industrial activity.

These are the chief among the drawbacks which, in spite of the richness of natural resources, have prevented the production of wealth from proceeding at a rapid rate. The annual production is not at all comparable to that of any other civilised nation. The country generally is not in a prosperous condition. There are some who would go so far as to assert that the condition of the middle classes of society has decidedly become worse than before, while the poorer classes lead a precarious sort of existence from year's end to year's end. A large majority of the people never have a silver piece in their possession.

The average farm production per head is calculated at Rs. 40 per year.¹ The average income per head as computed by Lord Curzon is Rs. 30 (£2); but Mr. William Digby and Mr. Dadabhai Naoroji would put it at an even lower figure. In calculating the income of the ordinary cultivator or labourer, the incomes of the rich and well-to-do classes must be deducted from the total national dividend. This would give us only 17s. as income per head of the ordinary people. This income compares unfavourably with the incomes of the other civilised countries. The average income of the people of the United Kingdom is £37, or 18·5 times as great as that of India. The average income

Average
production.

Average
income.

¹This is the figure also accepted by Sir Robert Giffen (vide *Economic Journal*, 1904).

in the United States is £39 ; that in France, £27·8 ; and in Germany, £22·2.¹

Wealth. Reliable statistics of the wealth of India² are not available. The average wealth per head of the population has been variously computed at from £10 to £25. The average wealth of the United Kingdom is £302 per head ; of France, £252 ; of the United States, £216 ; and of Germany, £156.

This is certainly a very gloomy picture ; but it need not fill us with despair about the future. Strenuous and persistent efforts on the part of the people are sure to lead to an immense improvement in the economic situation. As a matter of fact, there are already visible signs of the approach of a better state of things. The defects mentioned above are not inherent in the character of the people, but are the result of circumstances which they are now endeavouring to control and modify. We already find that a wave of enthusiasm for industry is passing over the land. A new spirit of enterprise is abroad. Labour is trying to shake off its lethargy

¹ *Vide* Mulhall, *Dictionary of Statistics*.

² India has been celebrated from the earliest ages for her immense wealth. She was at one time the richest country in the world. It was the wealth of India which was the cause of the foreign invasions from the time of Alexander down to the eighteenth century. When Sultan Mahmud of Ghazni sacked the temple of Somanath, the booty was so large that it was impossible to calculate its value. At Kanauj, Mahmud was so much struck by the splendour and magnificence of the city that he declared that "it was only rivalled by the high heavens." The spoil of Nadir Shah was valued at £625,000,000 (*vide* J. S. Cotton, *Colonies and Dependencies*, and Lethbridge, *History of India*).

and ignorance; capital is overcoming its shyness; and the people are preparing themselves for a new industrial life.

The economic position, so far as production is concerned, may be summed up as follows: The productive capabilities of India are great. She possesses an abundance of natural resources and a plentiful supply of cheap labour; but she lacks capital, enterprise, and organisation. The defects are, however, remediable, and, as a matter of fact, attempts are being made to overcome them.

Summary.

2. AGRICULTURE AND MANUFACTURE COMPARED

Before passing on to a somewhat detailed description of the agricultural and manufacturing industries of the country, it would be well to note the chief characteristics of a mainly agricultural country as compared with those of a mainly manufacturing country. They are:

Chief features
of the two.

(a) In a mainly agricultural country competition, or rather freedom of enterprise—which is the chief feature of modern industry—cannot have its full application. The agriculturist has to go to the land for his work; but raw material can be brought to the manufacturer to be worked on by him.

(b) The agriculturist has to depend very largely on nature; he has to adapt his work to the seasons. But the manufacturer is more free in this respect.

(c) Much less specialisation is possible in agriculture than in manufacture.

(d) As the produce of agriculture depends largely on factors which are beyond human control, *e.g.*, rainfall, it is uncertain. In manufactures the produce is sure.

(e) In agriculture, the law of Diminishing Return applies with full effect. In manufactures, the effect of that law is often more than counterbalanced by the law of Increasing Return.

(f) In an agricultural country labour is generally immobile, because it is inconvenient and wasteful to the labourer to move from one plot of land to another; and where there is peasant proprietorship there can hardly be any movement at all. In a manufacturing country there are no obstacles to mobility of labour beyond the ordinary obstacles of the ignorance, poverty, and conservative habits of the labourers.

(g) There is much less scope for the division of labour in agriculture than in manufactures.

(h) The profits of manufactures are higher than those of agriculture; and, as a result, when exchange transactions take place between the raw materials of one country and the manufactures of another, the latter gains more by the exchange than the former.

(i) A manufacturing country is capable of supporting a larger population than an agricultural one.

CHAPTER VI

PRODUCTION—(*Continued*)

1. AGRICULTURE

AGRICULTURE is, of course, the most important industry of India. It gives employment to two-thirds of the total population of the country, and of the rural population nearly 90 per cent. are connected with it, either directly or indirectly.

People mainly engaged in agriculture.

In a large country like India, the productivity of the land cannot but differ from place to place. We have on the one side the exceedingly fertile black cotton-soil and the alluvial land of the Gangetic Delta, and, on the other, the barren rocks of the Vindhyan hills and the sands of western Rajputana. Intermediate between these two extremes is to be found almost every possible variety of fertility. Speaking generally, however, we may say that the land is fertile in India.

Productivity of land.

Land may be classified in a variety of ways. The chief classifications adopted are those into cultivated, cultivable, and non-cultivable; irrigable and non-irrigable; *ek-phasli* and *do-phasli*.

Land classified.

The actual produce of any year depends on the amount and distribution of the rainfall. The

Produce depends on rainfall.

Harvests :

rabi and
kharif.

periodicity of the seasons allows of two, and in some places of three, harvests in the year. The two main harvests are the *kharif*, or the summer crop, and the *rabi*, or the winter crop. The *kharif* crops require much water for their growth, and, therefore, are sown as soon as the south-west monsoon commences, and they are reaped between September and November.

The *rabi* less
dependent on
rainfall than
kharif.

The *rabi* crops, as the name implies, are less dependent on rainfall. They are usually sown in October and November, and they ripen in March and April. The conditions affecting their growth being different, the character of the two kinds of crops also differs. This difference in character, however, is specially marked in Northern India; but is less marked in Bengal, and still less in Madras. During the period of their growth they are subject to a considerable degree of cold, which limits the choice of staples. In Bengal and Madras very much the same kind of crops may be grown in summer and winter.

In the Bombay presidency, which gets almost the whole of its rainfall from the S.W. monsoon, *kharif* is the chief kind of crops. Madras grows chiefly the *rabi* crops, for it is in winter that the N.E. monsoon brings rain to the province. In Northern India the south-west monsoon rain gives the condition necessary for the growth of varied *kharif* crops, while the winter weather is well suited to the *rabi*.

Classification
of crops.

Indian crops may be divided into (1) cereals, (2) pulses, (3) oil-seeds, (4) fibres, (5) dyes, (6) drugs, (7) spices, (8) table-vegetables, (9) pot-herbs,

(10) miscellaneous crops, (11) fruits, (12) fodder crops, and (13) root-crops. This division, however, is not strictly logical, as some of the crops fall into more than one of the classes. A brief account of the chief crops is given below, which will perhaps be found useful.

Rice is grown in areas of heavy rainfall, as, for instance, Bengal, Assam, Burma, and the west coast of Bombay. Not only is it far the most important crop of Bengal, but over 34 per cent. of the cultivated area of India is under rice. The varieties of rice are innumerable. In Bengal there are two main harvests, the *aus*, or early crop, and the *aman*. The *aus*, being a winter crop, does not require as much rainfall as the *aman* does. The *aus* rice is all coarse, and is eaten by the poorer classes alone; but it serves as a provision against famine when there is a failure of the rains. Rice is an important crop in Madras and Bombay also. In the United Provinces and Oudh it is grown either in damp localities or with the help of irrigation. It is practically the sole crop in Deltaic swamps.

The chief
crops :
Rice.

Wheat is grown in more or less quantities in every province. The great wheat-producing tracts, however, are the United Provinces, the Punjab, Behar, the Central Provinces, and Rajputana. The conditions favourable for the growth of wheat are exactly the reverse of those of rice; consequently, we find that, broadly speaking, where rice thrives, wheat does not. Wheat is a *rabi* or winter crop. Wherever possible it is irrigated. There are two chief classes of wheat, soft and hard. Indian wheat

Wheat.

compares very favourably with the wheats of other countries, and India is, next to the United States, the largest wheat-producing country in the world.

Barley and
Oats.

Barley is grown to a small extent all over India, and chiefly in the United Provinces. It serves as food for men as well as animals. Oats are a very minor crop in India.

Maize.

Maize is grown in most parts of India, but in the United Provinces it forms an important food-crop.

Millets.

Millets are grown extensively in almost every part of India. There are several varieties of this crop, the chief being *juar*, which is the staple grain-crop of Southern India. Millets can be used also as a fodder-crop.

Buckwheat.

Among cereals is also classed buckwheat, the grain of which is very nourishing. It is grown in the Darjeeling hills and also in the Central Provinces and Behar.

Pulses of
various kinds.

Next to cereals, pulses occupy the most important place as food-grains. Various kinds of pulse-crops are grown in India; the most important of these are *araha*, *chana*, *musuri*, *urd*, *mug*, and *kalai*. Pulse-crops thrive best in the United Provinces and Behar. In the Deltaic portion of Bengal they do not grow well, an excess of ordinary salt being injurious to these crops. Some of the varieties of pulses are used as fodder for cattle.

Oil-seeds.

Oil-seeds form very important crops in every part of India. Next to cereals they occupy the largest area in Bengal. There are several kinds of these, the more important among them being

mustard (*rye*, *sorson*, and *tori*), linseed (*tisi*), *til*, castor (*rehri*), *sorguja*, and ground-nut. Oil is also obtained from fruits, such as cocoa-nut and mahua, from various flowers, and from cotton-seeds. Castor-seed is also important because the *eri* silk-worms are reared on its leaf. The enormous export trade in oil-seeds is a great loss to the country. It is desirable, therefore, to export only the oil and to retain the cake for use as animal food or manure in the country.

Among the fibre-crops, jute and cotton, of course, *Jute.* are the most important. Bengal holds the virtual monopoly of jute in the world. There are extensive areas in some of the other provinces of India also, which may prove suitable for this industry. It is chiefly grown on land which is liable to be submerged in the rainy season. The conditions which are suitable for rice are also suitable for jute. It is a very paying crop. The first mention of jute as an article of export was made in 1828. Three-fourths of the product are now exported out of the country. The out-turn of jute in Bengal may now be put down at six million maunds, rated at eight or nine crores of rupees. It is now grown in many places where rice used to be grown before; and this is a matter deserving of consideration.

Two other fibre-crops allied to jute are Bombay hemp or *mesta-pat*, which is regarded by experts as *Mesta-pat.* even superior to jute, and *sunh-hemp*. *Rhea* is *Sunn-hemp.* another important fibre-crop. Great hopes are *Rhea.* entertained of the prospects of this industry in future. Aloe-fibre is also a useful economic product, *Aloe-fibre.*

which is grown only in tropical and sub-tropical countries.

Cotton. Cotton holds a very important place among the agricultural products of India. It is grown more or less over almost the whole of the country. The principal cotton-growing tracts, however, are the plains of Guzerat and Kathiawar, the highlands of the Deccan, the valley of the Central Provinces, and Behar. They fall into two classes: cotton-crop and tree-cotton; but there are numerous forms of the cotton-crop, and tree-cotton also is of several kinds. In Peninsular India the most suitable soil for cotton is the black cotton-soil. The quality of the product is inferior to that of the United States, and the yield per acre is also less. It is believed, however, that cotton cultivation is capable of being greatly improved. Unless attempts are made in that direction, India is sure to be ousted from the cotton market by other countries.

Indigo. Indigo was at one time one of the chief crops of India. The use of aniline dyes has, however, greatly diminished its importance. Its cultivation has now ceased in Bengal, but has been continued in a less degree in Behar and the United Provinces.

Poppy. Poppy cultivation is mainly restricted to Behar and districts of the United Provinces north of the Ganges. In British India it is conducted on behalf of the government. Poppy is also cultivated in some of the Native States of Rajputana and Central India. It is a *rabi* crop.

Tobacco. The total quantity of tobacco grown in India is large. It is grown in every district; but the chief

places of production are the Tirhut districts of Behar, Rangpur in Bengal, and certain districts of Madras.

The chief tea-growing tracts are Assam, Darjeeling and Julpaiguri in Bengal, the Nilgiris in Madras, Dehra-Dun in the United Provinces, and the Kangra valley in the Punjab. The export trade of tea is already large, and there is room for further expansion. The cultivation of coffee is confined wholly to Southern India. The two main centres of the cultivation of cinchona are Darjeeling and the Nilgiri hills. It is a government monopoly.

Tea, Coffee,
and Cinchona.

Of table vegetables a large variety is found in India. The most common and important is potato. It is usually grown after aus paddy or jute; in tracts of the country where potato is the principal crop, it often forms the only crop of the year. Deep cultivation is essential for the growth of the crop. The other common vegetables are *palvals*, brinjals, cabbages, cauliflowers, tomatoes, and turnips. Akin to potatoes is cassava, called *simulalu* or *Sarkar-kanda*. This vegetable sometimes serves as the chief food during a famine. It resists drought and yields a nourishing and palatable food. A more extended cultivation of the article is desirable as a protection against famine.

Table
vegetables.

Nowhere, perhaps, in the world can a larger variety of fruits be found than in India. The cultivation of fruits is not, however, undertaken according to proper scientific methods. If that is done, the quality of the fruits will be improved and

Fruits.

the yield greatly increased. India is capable not only of supplying herself abundantly with fruits, but also carrying on a lucrative trade with other countries.

Sugar.

Sugar was, at one time, a very flourishing industry in India. It has now greatly declined owing to the importation of foreign sugar. It still possesses, however, great possibilities, and of recent years there have been visible signs of a revival. It may be regarded as a half-manufactured article. Sugar is obtained either from the sugar-cane or the palm. The best cane is grown in the United Provinces and in some districts of Behar. Palm-sugar is manufactured either from the juice of the ordinary palm or of that of the date-palm. The palm-sugar industry still languishes in some districts of Bengal.

Spices.

Although spices of various kinds are grown in different parts of the country, the total production is not sufficient to meet the demand; and a great extension of their cultivation is needed.

Lac and
Indiarubber.

Among the miscellaneous crops the more important are lac and india-rubber. Lac is a resinous incrustation formed on the twigs of certain trees. Assam, Burma, and the forest districts of the Central Provinces and Nagpur are the chief sources of its supply. The importance of india-rubber as an economic product is being recognised more and more widely every day. In India, its principal sources of supply are Assam and Burma. If the cultivation of rubber on a large scale can be made successful in India, it would add materially to the national income.

Sericulture was once a profitable industry, but towards the middle of the last century it declined. At present it is showing signs of a revival. The chief area is in selected parts of Bengal, Assam, and the Central Provinces. Sericulture.

The crops most largely used as fodder-crops are *juar*, *bajra*, and *ragi*. In the Punjab and in Behar *juar* is largely cultivated as a fodder-crop. It is also grown in some parts of Bombay. In Madras *ragi* mostly takes the place of *juar*. Sugar-cane, as a fodder-crop, is used principally by the European planters in Behar. Grams, oats, barley, turnips, and prickly pears are grown in different parts of the country as fodder-crops. Some kinds of trees are frequently very valuable as supplying fodder for cattle. Very little, however, is known of the comparative feeding values of Indian fodders. It is needless to say that the cultivation of fodder-crops is very necessary for the improvement of cattle. Fodder-crops.

Accurate and reliable statistics regarding the agricultural produce of India are not available. But the following figures¹ will give the reader approximate ideas: Agricultural statistics.

	Million acres.
Net area of land by professional survey,	623
Area under forest, - - - -	82·5
Not available for cultivation, - -	157·6
Cultivable waste other than fallow, -	113
Fallow land, - - - -	50
Area irrigated, - - - -	42
Net area sown with crops, - -	218

¹ The figures are for the year 1908-09 (vide *Agricultural Statistics of British India*, and *Statistical Abstract for British India*). Figures are not available for the Native States.

				Million acres.
Total area under food-grains,	-	-	-	197
„	„	other food crops,	-	7
„	„	sugar,	- - -	2·5
„	„	coffee,	- - -	0·1
„	„	tea,	- - -	0·5
„	„	oil-seeds,	- -	14
„	„	cotton,	- -	13
„	„	jute,	- - -	3
„	„	opium,	- -	0·5
„	„	indigo,	- -	0·3
„	„	tobacco,	- -	1
„	„	fodder-crops,	-	4·6

Of the total area under food grains a little more than one-third is under rice, slightly more than one-fifth under wheat, and about one-fourth under bajra. The average out-turn of wheat in India is 13 bushels per acre, while it is $29\frac{1}{2}$ bushels in England.

Arboriculture.

Arboriculture is a science akin to agriculture, though trees can hardly be classed as agricultural crops.

India is capable of growing various kinds of trees. They grow naturally on tracts where there is an abundant rainfall; but they can be grown everywhere,—even in the arid tracts. At one time almost the whole country of India was covered with trees. In the first half of the nineteenth century, however, the matter was badly neglected, and many parts of the country were denuded of forests. The propagation of trees which yield starch, oil, sugar, vegetables, and fibres is of vast importance to a country where failure of agricultural crops through drought or inundation is of frequent occurrence.

Apart from their invaluable uses for food, fodder, and timber, trees are highly useful for their influence on the climate and rainfall. The presence of trees reduces the temperature of the atmosphere, while radiation is hindered at night. Trees thus produce the effect of equalising temperature; and by keeping the atmosphere moist they induce the fall of rain.¹ Beneath the shade of trees a rich layer of humus is formed which keeps the roots cool in summer and warm in winter, besides absorbing and retaining a great quantity of water. It is in this way that trees sometimes change the character of the poorest soils permanently for the better. Further, they prevent the soil from being washed away or denuded by rain. Trees also act as a most valuable fertilising agency of surface soils by bringing up food materials from the depth of the land and storing them in leaves, which afterwards fall and get mixed up with the soils. Lastly, they serve as break-winds in localities where high winds are an objection. It is essential, therefore, that the earnest attention of the people as well as the Government should be turned in this direction.

Beneficial
influence of
forests.

In India, as we have seen, the land is split up into millions of small holdings. Agriculture is consequently practised on a small scale. Cultiva-

Method of
agriculture,
small scale,

¹ This has been proved by experiment. For instance, in the Delta of the Nile, since the planting of trees the average number of rainy days in the year has increased from 6 to 40. In India many fertile parts of the country have become sterile since the destruction of forests (*vide* N. G. Mukherji, *Handbook of Indian Agriculture*).

extensive,

tion is almost always extensive. It is practised in the different provinces with an infinite variety of detail, according to the varying conditions. The Deltaic swamps of Bengal and Burma, the dry uplands of the Carnatic, the black-soil plains of the Deccan, the strong clays of the Punjab, and the deserts of Sind and Rajputana require separate modes of cultivation. The Indian peasant is ignorant, and consequently the method of cultivation is unscientific; but practice and the inherited experience of generations have taught him the value of a rotation of crops and the use of fallows. He knows what crops are suitable to a particular soil. He sows and reaps at the right times. He is assiduous and does his best to get the largest return from his field. But his poverty often prevents him from properly manuring his land, or selecting good seeds, or leaving his land fallow for a season. The implements used are of the simplest kind, but they are well adapted to the needs of the peasant.

unscientific
but not
inefficient.

Agriculturist
assiduous,
possesses
inherited
experience, but
is poor.

Chief want—
capital.

Considering the circumstances of the peasant and the conditions of Indian agriculture, it may be said that, on the whole, the peasant is efficient. What the peasant primarily wants is more capital. With greater capital he would be able to spend more on manures, he would purchase better cattle, and he would be able to supply his land with the required amount of water. The peasant also lacks a knowledge of improved methods of cultivation, and, to remedy this defect, agricultural education is necessary.

As agriculture is the chief industry of the country, and as the success of other industries depends on it, the improvement of agriculture ought to engage the serious attention of every thinker in India. Various suggestions have been made from time to time for the improvement of Indian agriculture. Some of these suggestions, however, have come from men who have not taken fully into consideration the circumstances of the cultivator and the conditions under which he has to work. The scientific method involves large tracts of land, deep ploughing, perfect irrigation, good manuring and proper rotation of crops; and thus necessitates the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator. There is much truth in the remark made long ago by an Indian daily newspaper, which said, "The native cultivators have nothing to learn so far as unscientific agriculture is concerned, and the adoption of scientific agriculture is wholly beyond his means."

Improvement
of agriculture.

Suggestions
must be
practical.

There is, however, much room for improvement even under the present conditions; and it is believed that the introduction of improvements into the existing methods of cultivation will increase the yield of fields by 15 or 20 per cent. Co-operation among farmers may go a long way towards solving some of the problems and removing many of their difficulties. The Co-operative Credit Societies, if properly worked, are likely to be of immense help to the agriculturists.

Much room for
improvement
under present
conditions.

Scientific experiments, carried out with a full

The peasant
not hopelessly
conservative.

regard to the circumstances of the country, will prove useful in many ways. Some agricultural experts despair of the improvement of agriculture because they have taken the Indian peasant to be “a living emblem of inertia.” But, in reality, the peasant is not so conservative as he is often thought to be.¹ He is not quite unwilling to adopt improved methods, but these must be shown to be capable of giving better results. In order to induce the peasant to adopt improved methods, the experts must prove, not on paper, but by actual farming, that these are paying and are suitable to the conditions under which the cultivator lives.² As Mr. D. L. Roy observes, “The neatness of the costly and heavy Shibpur plough, the scientific value of artificial manure, the sleek appearance of well-fed

¹ *Vide* Dr. Voelcker, *Improvement of Indian Agriculture*.

² The scientific system of agriculture is feasible only if undertaken by capitalist-farmers who can afford to commence farming on a large scale. For the scientific method of cultivation, at least a hundred acres (300 bighas) of land is necessary. The advantages of scientific agriculture are:—the provision of sufficient water, good manure, selection of good seeds, greater division of labour, the opportunity of raising particular crops according to the suitability of each plot of land, greater rotation of crops, and greater scope for experiments. With these advantages may be compared those possessed by the farmer who works on his own account, viz., the intense interest taken by the cultivator in his work, the spirit of independence and of self-reliance and other moral qualities which the system fosters, as also the social influence which it confers on the possessor of land. It should, further, be considered in this connection whether or not small-scale cultivation is well-adapted to the land-tenure system and the social environment of the country.

cattle have attractions of their own for the amateur; but to the practical agriculturist, the balance of profit is of more importance and far more tempting.”¹

In 1889 the Government appointed Dr. Voelcker to make enquiries into the condition of Indian agriculture, and to suggest possible improvements. He submitted his excellent report in 1893. In his report he recommended the adoption of certain measures, which may be summarised as follows: (1) the spread of general and agricultural education, and the preparation of suitable text-books in the vernaculars for the purpose; (2) the extension of canals and other means of irrigation to tracts where they are required; (3) the more energetic working and popularising of the system of *taccavi* advances for well-digging and similar purposes; (4) the institution by Agricultural Departments of organised enquiry to ascertain the irrigation requirements of each district; (5) the creation of reserves of wood and fodder (called “Fuel and Fodder Reserves”), the planting of trees along canal banks and railway lines, and the further encouragement of arboriculture; (6) the continuation and extension of experimental research aided by chemical science in reference to new crops, methods of cultivation, manures, etc.; (7) the trial of new implements at Government experimental farms, and the distribution of approved implements among the cultivators; (8) the distribution of seed from agricultural farms; (9) the location of stud bulls at Government farms,

Dr. Voelcker's suggestions.

¹ D. L. Roy, *Crops of Bengal*, p. 8.

and the encouragement of improved breeding of cattle.¹

Agricultural
education.

Undoubtedly, agricultural education is essential for the improvement of the condition of the agriculturist. But agricultural education must be preceded by general education. The Government imparts instruction in methods of agriculture at Shibpur, and several other places. Recently, an Agricultural College has been started at Pusa. The kind of education, however, which is at present imparted in the Government schools hardly leads to any practical results. As Mr. N. G. Mukherji, lecturer at the Shibpur College, observed, "Neither the farm-labourer nor the farmer, nor the landed proprietor care, as a rule, for agricultural education." These schools are meant for educated men—graduates of the University—who do not intend to start farming on their own account, but who go to these schools only for the sake of securing service under the Government. To be really useful, agricultural training should be given in such a way as to be taken advantage of by the actual cultivator.

We have briefly described the chief features of the agricultural industry, and suggested modes of its improvement. For agriculture India possesses great natural advantages, and when they are fully utilised, they will surely add greatly to the wealth of the country. Agriculture is important not only in itself, but on it are based all possibilities of the development of manufacturing industries.

¹ *Vide* Dr. Voelker, *Improvement of Indian Agriculture*.

2. MINING.

Akin to agriculture is the mining industry, for Mining. both of these are concerned with the raising of raw materials from the earth. As we have already seen, India is very rich in minerals almost of every kind;¹ and there is hardly anything which she cannot produce if only capital, enterprise, and technical knowledge are forthcoming.

The decay of the ancient metallurgical and chemical industries injuriously affected mining in India; it resulted in the almost exclusive development of those minerals which can be consumed by direct processes on the spot, or which, on account of their abundance and cheapness, are suitable for export in the raw state. Nevertheless, during the past few years conditions have been rapidly ripening in India for the successful revival along European lines of industries dependent on the ores and minerals. "There is now," says Sir T. Holland, "a prospect of undertaking the production of iron and steel which form the largest section of the bill for imported metals. Copper, lead, and some of the inorganic chemicals are also attracting the attention of investors, and active prospecting operations are now being undertaken." Revival of mining.

During the last decade there has been a marked increase in the output of Indian minerals. The total value of the mineral productions of India is Total mineral production.

¹ This is the view held by Sir Thomas Holland, lately Director of the Geological Survey of India. *Vide* his paper read before the Industrial Conference, 1905.

Coal. about $10\frac{1}{2}$ crores.¹ Coal is the most important of these products, the value of its production being over 4 crores. Indian coal has now almost completely displaced imported fuel. The coal workings in India are still very shallow, only one shaft having been sunk to a greater depth than 800 feet. About 95 per cent. of the produce is obtained from one belt known as the Gondwana system, and the remaining 5 per cent. from the rest of India.

Gold.² Gold is produced of the value of about $3\frac{1}{4}$ crores of rupees. The attention of European prospectors was originally directed to the Kolar field

¹ The figures given here are for the year 1909 (*Statistical Abstract for British India*, p. 264). Returns are available only for the main industries.

² The following figures, taken from the *Times*, April 25, 1911, show the details of gold-mining during the years 1908, 1909, and 1910.

Name of Company.	Capital.	Output in ounces for the last three years.	Dividends p.c.
Mysore - - -	£305,000	{ 218,042 230,391 230,577	115 115 115
Nundydroog - -	£283,000	{ 77,946 83,965 86,110	30½ 40 41½
Ooregum - - -	£450,722	{ 86,623 89,789 91,791	22½ 30 32½
Champion Reef -	£260,000	{ 119,736 112,132 113,540	20 20 23½
Balaghat - - -	£308,000	{ 27,538 20,852 17,009	Nil Nil Nil

area by numerous indigenous workings of unknown age, and since operations commenced on a large scale some twenty-five years ago, the gold extracted has reached a value of about 50 crores.¹ Complete returns of alluvial gold-washing which is practised in many places are not available.²

Petroleum comes third, the value of produce being slightly less than 1½ crores of rupees. More rapid progress has been made during the past few years in developing the petroleum resources of India than most of the other mineral products. Since the introduction of European drills into the fields some twenty-five years ago the production has rapidly risen. Petroleum.

Of manganese India probably turns out a larger quantity of high-grade ore than any other country. The value of the annual output is rather less than 80 lakhs of rupees. Manganese.

India has for many years been the leading producer of mica, turning out more than half the world's supply. The value of annual production is about 24 lakhs. Mica.

The other important minerals produced are salt, jadestone, and rubies. Other minerals.

Most of these mining industries are in the hands of Europeans. But it is no use complaining against foreigners. What is needed is to find out the cause and to apply the remedy. The real cause Mining mainly in European hands.

¹ Vide Sir T. Holland's *Sketch of the Mineral Resources of India*.

² Dredging operations on a pretty large scale on the river Irawady have resulted in the recovery of considerable quantities of gold every year.

is to be found in the want of indigenous capital and enterprise, and in the fact that very little technical and scientific knowledge is available in the country.¹

¹ Sir V. Thackersey, in his presidential address at the Industrial Conference, 1906, earnestly pleaded for the training of young men in mining, so that they may help the development of mineral industries in the country.

CHAPTER VII

PRODUCTION---(*Concluded*)

MANUFACTURES

At the present moment India is very backward in the matter of manufacturing industries. But there was a time when she was one of the chief manufacturing countries of the world. Even as late as the eighteenth century, she was on a par with Europe in industrial matters, and her manufactures found a ready market in many foreign countries. Until recent years, Indian industries were always worked by hand labour. The artisans inherited from their ancestors or acquired by experience a dexterity and skill and delicacy of touch which was not surpassed by artisans of any other country. Not only did they supply the people with the articles of necessity, but they turned out works of art of great excellence.

Manufactures
in ancient and
mediaeval
India.

The metal industries, and the cotton fabrics in particular, attained to considerable magnitude in many parts of the country. An able writer says: "In manufacture the Hindus attained to a marvellous perfection at a very early period, and the

Their
excellence.

courts of Imperial Rome glittered with gold and silver brocades of Delhi. The muslins of Dacca were famous, ages ago, throughout the civilised world. Textile fabrics of inimitable fineness, tapestry glittering with gems, rich embroideries and brocades, carpets wonderful for the exquisite harmony of colour, enamel of the most brilliant hue, inlaid wares that require high magnifying power to reveal their minuteness, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art in India." ¹ These handicrafts were very often practised on a fairly large scale, and they gave rise to big and wealthy towns.

Causes of their decay.

In the latter part of the eighteenth century, the industrial revolution began in Europe, and the older methods of industry were completely superseded by new ones. By saving labour and materials, and by the utilisation of by-products, goods began to be turned out at a much cheaper cost. Machinery supplanted hand labour, large amounts of capital began to be invested in every industry, production on a small scale gave place to large-scale production, and a better organisation was introduced. This great change led to a great increase in productive power. Indians, however, remained unaffected by the change, The Indian artisans continued to work as their forefathers had worked—without capital, without the assistance of machinery, without organisation. Each man went on working by and for himself as before; the appliances he used were the same as had been

¹ Vide *Chambers's Encyclopaedia*.

in common use before the manufacturing era began ; there was no co-operation among the artisans ; and division of labour was practised only to a limited extent. No attempt was made to render the Indian industries more efficient by reorganising them on modern lines. For some time the industries struggled for life, but were ultimately killed or crippled by competition with foreign manufactures, aided by the efforts of the state. By the middle of the last century India found herself reduced to the position of an almost entirely agricultural country.

All industrial activity and enterprise remained paralysed for a long time. Of recent years, however, there has become discernible a tendency to better things. But the situation is still full of difficulties. Modern industry, to be successful, must be undertaken by the educated Indian. But he lacks the practical commonsense of the business-man, and his education has not fitted him for the discharge of the multifarious duties of the modern entrepreneur. His small capital is wholly inadequate for the starting of business on a proper scale, and there are few banks, if any, which would be ready to lend him money. He cannot command the services of men who possess the requisite knowledge and technical skill. The conditions are so discouraging that he often gives up his idea in despair, or, if he is of a sanguine temperament, goes light-heartedly into foolish schemes which can only end in failure.

Tendency
towards im-
provement.

Difficulties
still great,

In spite of the various difficulties in the way of an industrial regeneration, some advance has actually

been made during the last two decades. People have now begun to realise the advantages of co-operation and combination. Ignorance and apathy are gradually disappearing before a new energy and a new spirit of enterprise. Educated India is taking more and more to technical and industrial education to obtain a mastery over nature. Capital is gradually overcoming its proverbial shyness. Steam and electricity are superseding hand-power. Old industries are being revived and new ones are cropping up in every direction.

but are being overcome in part.

But the value of the achievement is often exaggerated. Those who look complacently on the enormous increase in the trade returns, forget that the greater part of the industrial development of the country has been due to foreign capital and enterprise. The mining industries, the factory industries, the more important of the industrial arts are mainly in the hands of Europeans. The profits accruing from these industries, instead of accumulating in the country, are remitted abroad so that, in the words of Mr. A. Chatterton, a high Government official, "the people of India benefit by the establishment of these prosperous undertakings only to the extent that a certain number earn wages in subordinate positions or by doing coolie work."¹

This brings us to the much-debated question of Indian *versus* foreign capital. Much of the controversy to which the subject has given rise has been due to a want of clear thinking. On the one hand, it has been held that foreign capital must necessarily

Value of achievement often exaggerated.

Indian *vs.* foreign capital.

¹ A. Chatterton, *Notes on Industrial Work in India*, 1905.

do harm to the country; on the other, it has been maintained that its effect is bound in all cases to be beneficial. Sir Vithaldas Damodhar Thackersey, a great authority on the subject, and himself a very successful merchant, has attacked the question with great clearness of thought and force of expression. As Sir Vithaldas rightly observes, no country in the world can make much progress in industrial directions without plenty of capital. In India, the possibilities of industrial and commercial development are immense, but the amount of indigenous capital is comparatively small. India cannot, therefore, do without foreign capital. It will be a short-sighted policy to reject it on sentimental grounds. But it is necessary to form a clear conception of the limits within which the application of foreign capital is beneficial. The patriots of Japan have been eager to attract foreign capital to their country for purposes of industrial development. At the same time, they have not allowed the profits of industry to go out of the country. While, therefore, we should avail ourselves of foreign capital, whenever necessary, we ought to take care that we do not pay more for it than other nations. There are some enterprises which are necessary for the welfare of the country, but for which enough capital is not available within the country, and in such cases it is desirable to have resort to foreign capital. Railways are an instance of the right use of such capital. "But," says Sir Vithaldas, "when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and

Sir V.
Thackersey's
view.

Foreign capital
not necessarily
harmful.

Limits of its
usefulness.

jute industries, the carrying trade by sea, and the financing of our vast foreign trade by foreign banks, we come upon another and a less favourable aspect of the question of the investment of foreign capital. It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports, after omitting Government transactions. It must be remembered that so much of this amount as represents merely the interest on borrowed capital should not be regarded in the light of a drain from the country. It is in such investments as these that we find cause for complaint. In such cases, I cannot but think that it would be to the permanent good of the country to allow petroleum to remain underground and gold to rest in the bowels of the earth,¹ until the gradual regeneration of the country, which must come about under British rule, enables her own industrialists to raise them and get the profits of the industries. A country which maintains a population of thirty crores is not likely to let about one lakh of persons starve, and this is the number of wage-earners benefited by these industries. The price paid is much too great for the advantages accruing from them to the country.”²

Sir T.
Holland's
opinion.

The same view has been held by Sir Thomas Holland, lately Director-General of Geological Survey

¹ Sir V. Thackersey is undoubtedly right in this view, for the mines are not perennial sources of wealth like the soil; once exhausted, the mines will yield no more.

² Sir Vithaldas Damodhar Thackersey's Presidential Address at the Indian Industrial Conference, 1906.

to the Government of India. Speaking of the successful exploitation of the petroleum fields of Burma, he observed, "The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry, as in so many other enterprises of the kind, India will continue to pay an unnecessary and undesirable tax as long as those in the country who possess money will not risk their reserve fund in industrial purposes."¹

The position may be summed up in the remark that Indians should utilise foreign capital in the development of the country, and pay the necessary price for it; but they should not allow the country to be exploited by foreign capital for its own gain. It may happen in many cases that, although the people of the country may not be able to provide all the capital required for a new industry, they may yet be able to supply a portion of it, and thus prevent some part of the profits of the industry from leaving the country. Sir Vithaldas suggests in this connection that the legislature should make it obligatory on every industrial concern floated by foreign companies that the same opportunities should be given to Indian capitalists, and that the prospectus should be published simultaneously in both countries.

Summary.

Suggestion for State intervention.

Doubts have been expressed in some quarters in regard to the possible success of the industrial movement. It has been held by some that nature

Agriculture vs. Manufactures.

¹ Paper read by Sir T. Holland at the Indian Industrial Conference, 1905.

had destined India to be an agricultural, and not a manufacturing, country. It is difficult to understand what this really means. It is true that she possesses certain exceptional facilities for agriculture which must always continue to be one of her most important industries. But that does not prove that she is naturally unfitted for the development of manufacturing industries. On the contrary, it shows that the natural advantages which she possesses as an agricultural country may be made to serve as aids to the growth of manufactures. The raw materials of every industry must come ultimately from the land. India has thus a start over other nations in so far as she can produce these raw materials at a comparatively cheap cost. Agriculture and manufactures, instead of being opposed in interest, may, in a large country like India, be really helpful and supplementary to each other. The growth of manufactures will not necessarily mean the neglect of agriculture, but may, on the other hand, give a stimulus to its further development. Manufactures will flourish, not by withdrawing from agriculture the factors at present employed in its production, but by bringing into use uncultivated land, unemployed labour, and fresh capital. The combination of agriculture and manufactures has been found possible in America, and there is no reason why it will not succeed in India.

The two supplementary to each other.

Can manufactures succeed in India?

There are others who think that the circumstances which have favoured the growth of industries in European and American countries are not present in India. Let us examine the statement. As for

the physical and moral characteristics of the people, they are not the natural monopoly of any nation or race. The superiority, in some particulars, lies with India; in others, the deficiencies may be overcome with the aid of science. Most of the qualities which make for success in industry are possessed by the people, but they are in a state of quiescence and a little effort only is needed to make them active. India possesses a great advantage in the extremely low cost of living which prevails here. Three centuries ago, England was industrially backward as compared with Holland and other enterprising nations of Europe, but to-day she is in the front rank of industrial nations. Germany has worked her way up to her present position in the course of less than half a century. There is thus hope for India yet. The present backwardness of India is due in part to the causes we have mentioned before and partly to its political environment, but it would not be quite unreasonable to expect a gradual modification of the political situation in the near future.

Let us now briefly review the more important of the industries of India. The industries are usually classified under the following heads: (1) textile fabrics and dress; (2) food, drink, and stimulants; (3) metals, metallic manufactures, precious stones, and minerals; (4) glass-, earthen-, and stone-ware; (5) building requisites; (6) light, fuel, and forage; (7) vehicles and vessels; (8) wood, cane, leaves, etc.; (9) drugs, dyes, gums, and chemicals; (10) leather, horns, etc.; and (11) articles of supplementary requirements.

The chief industries:

Weaving.

Ginning,
Cleaning,
Pressing, and
Spinning.

Effect of
foreign
competition.

Weaving is the most important industry of the country next to agriculture. Handloom-weaving reached a perfection in the production of fine cloths; the Indian muslins were, in fact, fabrics of unrivalled delicacy and beauty. The preliminary processes of ginning, cleaning, pressing, and spinning are also important industries by themselves. Formerly, cotton used to be hand-ginned, mostly by women. But now hand-ginning has been superseded to some extent by power-gins. Cleaning and pressing are very often combined with ginning in the same factories. Spinning of thread was, and to some extent still is, a domestic industry—the chief occupation of women. The indigenous method is slow but cheap. Mr. Havell thinks that this method cannot be materially improved, and recommends the establishment of more spinning mills. Hand-loom weaving has suffered greatly in competition with Manchester, and hundreds of thousands of workers have been thrown out of work. The weavers of Bengal, whose fame at one time extended over Europe, have suffered most from foreign competition.

Weaving mills have been established in various parts of the country, but a large proportion of the population is still dependent on hand-loom weaving. Hand-loom weaving, however, is more expensive than power-loom weaving. As Mr. A. C. Chatterjee points out, the comparative cost of weaving a pound of cloth by power-loom in England is 14 pies, by power-loom in India 17 pies, and by efficient hand-loom in India 21 pies. Experts, however, think that there are several factors in favour of the

hand-loom, which may be summed up as follows :
The amount of fixed capital needed is small ; the coarser hand-loom articles are stronger and more durable than those produced by the power-loom ; artistic and richly-ornamented articles can be produced only by the hand-loom ; the hand-weaver possesses considerable advantage in his inherited skill ; he has a low standard of living and combines the industry with other occupations, notably agriculture ; women who, on account of the social customs and the system of seclusion, are generally debarred from working in the factories, can find a place in the industry ; the hand-worker who works on his own account works harder and takes greater interest in his work than the factory labourer.¹

Advantages of
the hand-loom.

The fact that hand-loom weaving has not entirely died out has led many people to hope that the industry may yet be saved. Mr. Havell and Mr. Chatterton think that, by the adoption of improved methods, the hand-loom may successfully compete with the power-loom. This belief, however, is not shared by other experts, who find in the establishment of weaving mills the only means of meeting European competition.

Views of Mr.
Havell and Mr.
Chatterton.

Among the means of improving the hand-loom industry which have been suggested from time to time the following are worthy of mention : (a) the spread of elementary education so as to raise the intellectual standard of the community ; (b) the use of efficient hand-loom ; (c) improvements in pre-

Suggestions for
improvement.

¹ *Vide A. C. Chatterjee, Notes on the Industries of the United Provinces.*

liminary processes; (*d*) co-operation among weavers; (*e*) demonstration to the weavers of successful experiments; (*f*) cheap credit; (*g*) advances for improved appliances; (*h*) better touch of the weavers with the customers so that they may know the demand of the market; (*i*) the establishment of small hand-loom factories.

Weaving mills. During the last twenty-five years there has been a great development of the mill-weaving industry, especially in Bombay and the Central Provinces. The produce of these mills is now able to hold its own against foreign produce. It is believed that the suggested abolition of the excise duty on cotton manufactures will lead to a further growth of the weaving industry.

Silk-weaving. The process of weaving silk is the same as that of cotton, but it requires greater care and hence the use of a specialised kind of machinery. The greater part of the silk produce is done by the hand-loom. Silk factories have, however, been established in Calcutta and Bombay.

Knitting. Allied to weaving is knitting. This industry has received a great impetus from the new spirit. It can give employment to a large number of women who may be engaged to work with machines in their own homes for piece-wages. Other cotton industries are those of rope-making, carpet-making, tent-making, etc. Cotton carpets or *daris* form the subject of an important industry in the United Provinces. Artistic work on dress was at one time very much in demand, but is now in a declining state.

The indigenous woollen industry of Northern India suffered much in competition with cheap German goods. Attempts have been made during the last twelve or fifteen years to develop the industry on modern lines. In the Punjab and the United Provinces, a number of woollen mills have been started, those at Dhariwal and Cawnpore being the most important of them. Woollen carpets of good quality are made in the United Provinces. The scarcity of raw material of a good quality is an obstacle to the growth of the industry.

Woollen
industry.

Jute supplies the raw material for the manufacture of gunny bags and things of the sort. In Bengal, there has been an immense development of the industry during the last half a century. Mills have been established on both banks of the Bhagirathi, and also in several parts of East Bengal. This industry is entirely in the hands of Europeans.

Jute.

The manufacture of paper was at one time an extensive hand industry, but now it has almost died out. Paper mills are now working at several towns; but they can hardly be said to be in a flourishing condition.

Paper.

Dyeing was at one time a very thriving industry, but the native dyes, though better and more lasting, have to a large extent been replaced by cheap aniline dyes. Dyes are manufactured from various stuffs, such as indigo, catechu, al, safflower, lac, and turmeric. The manufacture of coal-tar dyes has been begun in some parts of the country, but nowhere on a fairly large scale.

Dyeing.

Rice-hulling,
Wheat-
milling, etc.

The manufacturing industries connected with food-grains are rice-hulling, wheat-milling, bakeries, and biscuit manufactures. Flour mills have of late been started in many towns, but in Northern India milling is still done mainly by hand. Small machines are now extensively used for rice-hulling, and handy flour-mills are also coming into general use. In Bengal and the Punjab, several biscuit factories have been started.

Sugar.

Sugar was one of the important industries of India, but it can hardly be said to be now in a flourishing state. Refined Indian sugar fails to successfully compete with imported sugar because of the wasteful methods employed. With the adoption of improvements in the method of pressing the cane, of boiling down the juice, and of sugar refining, together with an improvement in the production of the raw material, the industry is likely to thrive once more. Several small sugar factories have been started in the country. A large factory has been established in Behar by European capital and under European supervision.

Leather.

Leather industry is progressing in India at the moment. Chrome-tanning, which was first begun in Madras only a few years ago, has now been adopted in almost every part of the country. Tanneries have been established all over the country, the most important centres of manufacture being Agra, Cawnpore, Calcutta, Bombay, Cuttack, and Madras.

Oils and oil-
seeds.

Oils and oil-seeds form the subjects of useful industries throughout the country, but there is

ample room yet for their further expansion. The cotton-seed industry has materially helped to make the United States one of the foremost among the industrial nations of the world. The export of cotton seeds involves an immense loss to the country; and the development of industries in connection with them is sure to be useful both in a direct and in an indirect way.

In the metal industries many of the local handicrafts attain to considerable magnitude. “The high quality of native-made iron,” says Sir Thomas Holland, “the early anticipation of the processes now employed in Europe for the manufacture of steels, and the artistic products in copper and brass gave India at one time a prominent position in the metallurgical world.”¹ Copper and brass vessels which are necessary articles in every household are even now manufactured in every district. The chief centres of manufacture are, however, Murshidabad, Srinagar, Benares, Mirzapur, Moradabad, and Mysore. The artistic and jewellery works of Multan, Cuttack, Madura, Poona, and other cities are famous all over India. Business in these arts is usually done on a small scale by blacksmiths and silversmiths, of whom one or more are found in every town and village. Cutleries have been in existence for some years in different parts of the country. The lock-works of Calcutta, Aligarh, and Hathras, have been doing very good business. The

Metal industries.

¹ Sir Thomas Holland rightly says: “In ancient times the people of India seem to have merited their fame for metallurgical skill” (*vide his Sketch of the Mineral Resources of India*).

manufacture of steel trunks is becoming a very useful industry. The aluminium industry of Madras has become important during the last twenty years.

Iron.

The wasteful indigenous process of smelting iron in small furnaces is a great drawback in the growth of the iron industry. Several iron and steel factories have, however, been recently established. The Tata Iron and Steel Works have started work on a very large scale. The railway companies have their own workshops, some of which are of considerable size.

Glass.

The manufacture of glass by the indigenous method has existed from very early times. Bangles are made of crude glass obtained from *reh* or saline deposits on barren land. Flasks, inkpots, and such other small things are blown from crude glass. Glass factories were a few years ago started in several places, some of which had, however, to be closed. The one at Umballa is reported to be working well. It is, however, working under one great disadvantage. Coal for the furnace has to be brought from a great distance. The other difficulties which the glass industry has to contend with are: want of skilled labour, inexperience of the requirements of the Indian climate regarding furnaces, and difficulty of glass blowing in hot weather.

Carpentry.

Woodwork and carpentry are still in the main hand industries. Saw mills have, however, been established in many parts of the country.

Chemical Industries.

The once flourishing chemical industries of India have been almost stamped out by the foreign

manufacturer. The foreign chemical product has obtained a supremacy in India, however, not merely because it is cheaper, but mainly because it can be depended on for uniformity of quality. Several factories—the chief among them being the Bengal Chemical Works of Calcutta—have during the last few years been doing very good work in the way of reviving the chemical industries of India.

Perfumes and essential oils are important industries in the United Provinces. Ghazipur, Jaunpur, and Kanauj are famous for the produce of *itr* and other perfumes, rose-water, and various kinds of perfumed oils. A few perfumery factories on western models have been established in Calcutta, Bombay, and some other cities. Soap is manufactured by the indigenous process, and also in factories on modern lines. The soap factories of Calcutta and Meerut do work on a fairly large scale.

The tobacco-industry is very extensive, and is growing in magnitude. A tax on imported products is likely to give a fillip to the indigenous industry.

Dairy-farming is more akin to agriculture than to manufacture. It ought to be a flourishing industry in India, but unfortunately is in a languid state. The supply of milk and its products, such as butter, *ghee*, *matha*, etc., has now greatly contracted. The best efforts of the people should be directed towards an industry which would supply them with the best and most nutritious kind of food. For this purpose, the improvement of cattle and an increase of grazing fields are absolutely essential.

The following table gives the numbers of the

larger industrial concerns which existed at the end of the year 1908-9 :¹

Mills and factories.	Cotton mills, - - - - -	232
	Jute „ - - - - -	52
	Woollen „ - - - - -	5
	Paper „ - - - - -	9
	Arms and ammunition factories (Government), - - - - -	16
	Breweries, - - - - -	24
	Cotton ginning, cleaning and pressing mills and factories, - - - - -	1175
	Dockyards, - - - - -	23
	Indigo factories, - - - - -	111
	Iron and brass foundries, - - - - -	88
	Jute presses, - - - - -	152
	Lac factories, - - - - -	82
	Petroleum refineries, - - - - -	5
	Printing presses, - - - - -	120
	Railway workshops and factories, - - - - -	92
	Rice mills, - - - - -	203
	Saw „ - - - - -	106
	Silk filatures, - - - - -	64
	Sugar factories, - - - - -	24
	Tile „ - - - - -	98

The space at our command does not permit us to give a full account of all the industries of India, and we have to content ourselves with a brief and rapid survey of the most important of these. The possibilities of industrial development are immense, and India, with her command of the raw materials, ought not only to supply her own needs but to furnish other countries with manufactured products.

¹ These statistics are only for workshops or factories employing a daily average of fifty persons or more. The number of joint-stock companies registered in each province in 1900 and 1909 respectively will be found in an Appendix.

But to attain this end, an enormous increase of capital, the proper training of labour, and the adoption of improved methods of work will be necessary.

From our review of the industrial situation we have seen that the system of small-scale production still largely prevails in India, but in some of the industries production on a large scale has begun. The question whether the people of India should stick to their old system of handicrafts, or adopt, to the full extent, the new system of production by machinery and large capital, involves so many knotty points that it is not possible, or even desirable, to answer it in an off-hand way. It is undeniable that the efficiency of the productive agents is greater in many ways in large productions than in small ones.¹ But there are some disadvantages

Large-scale vs.
small-scale
production.

¹ The advantages of large-scale production may be summarised as follows: (1) Better classification of labour according to its capacity; (2) the use of up-to-date and specialised machinery; (3) applied machinery can be so adjusted as to give full employment to the motive powers; (4) improvements can be more readily adopted; (5) inventions can be encouraged; (6) expert skill can be employed to a greater extent; (7) better selection of materials and of processes is possible; (8) purchases are made in large quantities and hence cheap; (9) sales are wholesale and hence not troublesome,—and often aggregate profits are higher, though the rate of profits may be low; (10) competent managers may be appointed for the control of the different departments; (11) the head of the firm is left free to deal with the larger questions, and to exercise a general superintendence; (12) bye-products are utilised, and even small things are not thrown away. The economic disadvantages are: (1) very great loss arises from a change in the demand for commodities; (2) the cost of superintendence is often large; (3) the interest of the paid managers is

Merits and
defects of
large-scale
production.

even from the economic standpoint. It is, however, chiefly on moral and social grounds that objection is made to the system of large-scale production. Under that system men tend to become mere machines,—drudgery is destructive of all initiative and individuality. Again, the massing together of large numbers of people leads to physical and moral ill-health. Further, while the system of small-scale production enables a large number of people to live independently, the large-scale system raises a few, often at the expense of the many. Already we find a revulsion of feeling in the west among some of the thinkers. In countries where the capitalistic system has been pushed to an extreme, wide-spread destitution is found in the midst of the greatest abundance. “The tramp,” says Mr. Henry George, “comes with the locomotive, and almshouses and prisons are as surely the marks of ‘material progress’ as are costly dwellings, rich warehouses, and magnificent churches.”¹ He goes on to observe, “The association of poverty with progress is the great enigma of our times.”² It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy grapple in vain.”³

much less than that of the small proprietor; (4) large industries are not possible or profitable unless there is a sufficient demand.

¹ Henry George, *Progress and Poverty*.

² The distribution of British incomes (in 1904) is thus calculated by Mr. L. C. C. Money: “rich, 1½ million—£585,000,000; comfortable, 3½ millions—£245,000,000; poor, 38 millions—£880,000,000.”

³ Henry George, *Progress and Poverty*.

This is undoubtedly a very complex problem. It is obvious that an industrial revolution has commenced in India. Whether such revolution is a desirable thing or not is a question on which opinion is hopelessly divided. There are some who not only welcome the revolution, but are even prepared to hasten it as much as they can; there are others who curse it and wish that it could be stopped. On the one hand, it is believed that the regeneration of the country will come through an industrial revolution; on the other, it is feared that the materialism of the west will destroy the spiritual ideals of the people and deaden the finer elements in their nature. One class of persons look confidently to the change for an economic millennium which will bring wealth and prosperity into the country; another class are appalled at the prospect of the immense misery that is likely to come in the train of the revolution.

The industrial revolution.

Opinions for and against it.

In the midst of such conflict of opinions, the economist would naturally find himself in a difficult position when called upon to give advice. On a careful consideration of the pros and cons of the matter, he would probably find that an element of truth underlies each of the two rival sets of opinions. He cannot deny that in the west enormous wealth stands side by side with abject poverty. He cannot forget the fact that the Industrial Revolution in England and other European countries was accompanied by great evils—"the tears of homeless women and the cries of hungry children." He would recognise that competitive

Element of truth in each view.

economics—under which there is a tendency for “the rich to grow richer and the poor to become poorer”—may be unfair in its behaviour towards the weak. He would be alive to the grave danger of the new system affecting the simple life of the people. At the same time, he would not overlook the simple facts, namely, that the industrial change has already made its appearance without any invitation from the people, that it is not in the power of anybody to prevent it, that it is bound to grow and expand against all odds, and that if the people of the country will not take advantage of it, others will. The only advice which the economist can, under such circumstances, offer to the people would be to ask them to take things as they are, instead of fighting against the inevitable, to profit by the experience of other nations, and to try and minimise the evils of an industrial change.¹ He would even try to harmonise the old and the new, by taking the good from each and eschewing the evil.

Conclusion.

Co-operation.

One of the chief means by which the evils of capitalism may be minimised in some degree is the adoption of the principle of co-operation.² Co-operation has produced great results in Europe and

¹ During the last half century serious efforts have been made in every civilised country to ameliorate the condition of the working classes. As a matter of fact, immense progress in well-being has been made during these years.

² It is true that one of the chief features of the industrial revolution is the substitution of competition for the old regulations which used to control the production and distribution of wealth ; but it is open to doubt whether competition is likely to be a permanent factor in industry in the future.

America, and there is no reason why it should not succeed in India.¹ Co-operation, however, presupposes the existence of certain qualities, especially those of business honesty, confidence, and sense of duty; and they must be cultivated by those who wish to engage in business.

Even if the large-scale system be adopted in India, small industries need not die out. Some of the small industries may be made successful with the help of co-operation. In one class of cases, the small manufacturers possess such inherent advantages that they cannot be supplanted by large producers. In others, the small industries may successfully compete with large ones. Japan is still a country mainly of small industries. The success of such industries in Japan, however, is due partly to the efficiency of the workers and partly to the protection given to them by the state through the system of high tariffs. Sometimes, small industries may flourish side by side with large ones, to meet supplementary demands.

Small industries need not die out.

Let us now consider a very important topic connected with industry. Industrial education is undertaken in every civilised country either by the state or under state guidance and control. In the United States, every single state has a college where technical education is imparted, which is absolutely free. Germany, France, and England spend large

Industrial education.

In foreign countries.

¹ For an account of the subject see Fay, *Co-operation at Home and Abroad*. It must be admitted that co-operation has not yet succeeded to the same extent in production as in distribution.

sums annually for this purpose, and Japan is not behind-hand in the matter. But in India the matter has been sadly neglected, and technical education has not yet been undertaken on a considerable scale either by the state or by individual effort.

In the Feudatory States of India.

Of recent years, the question has engaged the attention of the Government who are collecting information from various sources in order to do something in the matter. Some of the Feudatory States of India—the chief among them being the enlightened state of Baroda—have also realised the necessity of imparting a sound system of instruction in the arts and industries, and have been making earnest efforts to remove the long-felt want.

In British India.

In 1890, an industrial survey was made in Bengal, and in the report the necessity of technical education was clearly pointed out. The Government instructed some of the district boards and municipalities to start technical schools on a small scale. In Bombay the Victoria Jubilee Institute was started with assistance from the Government. This institution has since then been doing good work in training mechanics for employment in the mills. Technical schools have been started at a few centres in some of the other provinces, but none of them have yet attained to any considerable magnitude.

The Government Engineering Colleges at Roorke, Shibpur, and Poona, though they can hardly be said to be imparting industrial education, teach subjects allied to it. In the Shibpur Engineering College a class has been started for motor-car chauffeurs, and it is proposed to start lectures on other industrial

subjects. The Behar School of Engineering imparts instruction in the science of engineering up to a moderate standard. The technical schools at Budwan, Dacca, Kurseong, and other places, train workmen for workshops.

Independent efforts are also being made in this matter in almost every province. The institutions most worthy of notice are the Association for the Advancement of Scientific and Industrial Education and the Bengal Technical Institute. The former was started in 1904, and since then has been sending out every year young men to foreign countries for industrial training. Many of the students who have returned after a successful career abroad have either started factories on their account or found employment in existing mills and workshops. The Bengal Technical Institute was started in 1906. This institution has recently been amalgamated with the National Council of Education. It has arrangements for teaching some of the more important branches of technical instruction, such as mechanical and electrical engineering, technological chemistry, sheet-metalling, economic geology, etc. The Indian Association for the Cultivation of Science imparts instruction in practical chemistry and other similar subjects. The Indian Institute of Science—which owes its foundation to the munificence of the late Mr. J. N. Tata—though not in itself a technical college, is sure to prove very useful for the higher study of technical subjects. The Mahila Silpa Samiti of Calcutta has set itself to a very important side of technical education, namely, the training of

Independent
institutions.

women in the domestic arts and industries. Much good work is also being done by missionary societies in different parts of the country, but the standard they have kept in view is very low.

Unfortunately, the efforts which have hitherto been made in the matter of technical education have not yet been attended with complete success. The failure has been due to the fact that the facilities for technical instruction have not so far been availed of by intelligent and earnest young men. Only those who were likely to be hopeless failures in other walks of life have sought for industrial education, and it is no wonder that they have profited little by it. Of recent years, however, a greater attraction for it has become discernible among the better classes of young men in the country.

Technical
education and
its influence on
castes.

The modern system of technical education is different from the indigenous system. Under the old system every young man used to go through his period of apprenticeship in the profession of his father, and, on his attaining manhood, became a member of his caste-guild. He could not leave the profession proper to his caste and adopt some other. The new system does not recognise distinctions of caste, but admits young men of all classes and creeds. One of its influences has thus been to undermine the caste-system.

CHAPTER VIII

DISTRIBUTION

1. RENT

RENT in India depends on the interaction of three forces—custom, competition, and legislation. In ancient days custom was the chief regulator of rents. With the increase of population and the gradual disappearance of the semi-socialistic ideas which used to govern the mutual relations of the members of the ancient village communities, rents began more and more to be regulated by competition. This led to great hardship in many cases, and the Government had to intervene in the interests of the tenant. The rent laws differ in the different provinces, but their general effect is to put a check on the power of the landowner to raise rents at his pleasure. The rent legislation itself starts from a basis of custom, and, while accepting the legitimate influence of competition, seeks to confine it within reasonable limits. It aims not so much at the curtailment of advantages naturally accruing to landlords as at the maintenance of rights already conferred on tenants by custom. Custom is, therefore, still, to a large

Factors which
determine
rent : custom,
competition,
legislation.

extent, the foundation of Indian rents. The Ricardian doctrine of rent is not absolutely true of any country in the world. The conditions which it assumes do not exist anywhere in the fullest degree; but in the United States and in England an approximation is made to these conditions, and to that extent the doctrine has application to those countries. In India, they are conspicuous by their absence; and, consequently, the theory can hardly be said to hold good in India. Here rent does not necessarily represent the difference between the produce of any particular plot and the plot on the margin of cultivation, but is a more or less definite charge. Productivity is, no doubt, a factor in the determination of the actual rent of any plot, but it is only one of several factors. Rent is often an element in the cost of agricultural produce.

The relative influences of the factors.

The actual rates of rent in any part of the country depend on the relative strength of the three factors. Where the influence of custom is very strong, it would overcome the influences of other factors. Where it is weak competition has its way, unless it is checked by law. In sparsely-populated tracts, such as Assam, Central Provinces, and Rajputana, rents are low. In some cases, tenants are invited to occupy land by allowing them to hold it free of rent for the first few years. In the densely-populated parts—namely, the tracts of heavy rainfall, or those watered by the great rivers—competition for land is very keen, and the landowner is often able, when not prevented by law, to rack-rent the tenants. If custom and law be

regarded as constant quantities, any change in the force of competition would necessarily change the rate of rent. In the early days of British rule, the population was much smaller than what it is now. Land was abundant and tenants were fewer. Rents were, therefore, comparatively low. The population has since increased. Moreover, owing to the decay of manufacturing industries, a larger proportion of the people is now engaged in agriculture than before. The competition for land has thus become keener in most places, and, consequently, rents have gone up. In the larger cities, rents have risen very high.

Rents, as a rule, rise when there is a rise in prices, but not proportionally. Generally they rise considerably after prices. In some cases, however, a rise in prices does not entail an increase of rents at all.

Rise of rents.

Connection
between rents
and prices.

Formerly, rents used to be paid in kind. At the time of the reaping of crops the representative of the landlord used to be present in the fields, and a division of the produce was made between him and the tenant. This system was very advantageous to the tenant. If crops failed, the tenant was not compelled to pay his rent in full. The system still obtains, to some extent, in the remote villages; but cash rents have been generally substituted for such rents. These latter are less flexible than rents in kind. The legislative provisions deal mostly with money rents.

Cash rents and
rents in kind.

The systems of tenure under which land is held are various. Roughly speaking, the tenants or

Systems of
tenure:

Permanent,

holders of land may be divided into two classes. The first class possesses, according to immemorial custom, a right of permanent and hereditary occupancy in the land so long as they pay the rent that is due. The amount of rent depends mainly on custom. In some cases, they are entitled to hold at permanently fixed rates, and their right is heritable and transferable; in others, the rent can only be enhanced on certain grounds. The second class consists of those tenants whose term of lease is limited to a number of years, and of tenants-at-will who may be evicted at the close of any agricultural year. The amount of rent payable by tenants of this class depends on the bargain which the cultivator can make with his landlord.

Temporary.

Condition of
peasants of the
two classes.

Tenants of the first class, together with those cultivators who own their lands, may be described as peasant-proprietors.¹ Their condition is incomparably better than that of the cultivators of the second class. In all matters relating to material prosperity, such as the possession of cattle, dwelling-houses, and well-watered fields, the superiority lies on the side of the cultivator-proprietor or the occupancy-tenant. "The magic of property," of which Arthur Young speaks so eloquently, has its effect in India as elsewhere. The peasant-proprietor is the most uncontrolled arbiter of his own lot. The condition of the tenants of the second class is generally

"The magic of
property."

¹ Cf. J. S. Mill: "The idea of property does not necessarily imply that there should be no rent. It merely implies that the rent should be a fixed charge. What is wanted is security of possession on fixed terms" (vide *Principles of Political Economy*).

wretched. The economic and moral value of the system of peasant-proprietorship is immense, and there can be no surer means of improving the condition of the Indian cultivator than to confer on him limited rights of property.¹

So much about the rent of land used for purposes of cultivation and building. The rents of mining lands stand on an entirely different footing.²

Rent of mining
lands.

In practically all the Feudatory States, the mineral rights belong to the respective Rulers, and concessions are granted for mining and prospecting under rules that involve a certain amount of supervision by the Government of India. In parts of British India also, the minerals have been ceded with the surface rights by terms of settlement; but in the rest of India, the Government retain rights over the minerals and grant concessions for their exploitation in accordance with the terms of Rules framed by the Government.

By these Rules, *exploring licenses* for one year can be obtained, but they give no exclusive or perpetual rights, and there is no prohibition anywhere against free exploration in unoccupied and unreserved land. *Prospecting licenses* are granted, under certain conditions, over restricted areas for a period of one year, renewable for a second and a third term. Such licenses carry an indefeasible claim for a subsequent *mining* lease for any mineral other than

Exploring
licenses.

Prospecting
licenses.

¹In England, a system of peasant-proprietorship is being encouraged at the present moment under the provisions of the Small Holdings Act.

²*Vide* Sir T. Holland, *Sketch of the Mineral Resources of India*.

precious stones over the same or a more restricted area.

Mining leases.

Local Governments may grant *mining leases* for periods of thirty years, which may be renewed for further periods with the sanction of the Imperial Government. Every such lease contains such conditions and stipulations as the Local Government may think necessary in each case.

Under the rules, the *prospecting rent* charged is a moderate rent not exceeding one rupee per acre. Every lessee has to pay a surface rent, the rate being assessable under the Revenue or Rent Law of the Province; or if no such rent is so assessable, the rate which may be fixed by agreement, subject to a maximum of one rupee per acre. In addition to this, he has to pay a *royalty* at certain specified rates. The lessee has also to pay every year after the first year a fixed yearly *dead rent*, but no lessee has to pay both royalty and dead rent in respect of the same lease, but only such one of them as may be of the greater amount.

Ownership of land.

The question of the ownership of land is one of the many unsettled questions of Indian Economics. In Europe and America, nationalisation of land is the favourite ideal not only of socialists but also of many scientific economists. The influence of this ideal has made itself felt in India, where there is a tendency among the officials to regard the Government as the universal landlord,—the ultimate proprietor of all lands,—and to consider the revenue taken from the people by the state as the nature of rent. Some go further and draw the legitimate

conclusion from such a theory that the Government would be justified in demanding as its revenue the whole of the economic rent. An attempt is often made to prove historically the correctness of this view.¹ Without entering upon the discussion of the technicalities of this question we may say that, for economic purposes, each of three classes of persons may be regarded as having a limited right of proprietorship,—the tenant, the landlord or zemindar, and the Government. The Government itself is the direct owner of large plots of land, such as waste land, land which has been forfeited or lapsed to or purchased by the Government, and all public land. With regard to these, the state stands on the same footing as a private landlord, the only difference being that these lands have not to pay any additional land-revenue. Rents of such lands are governed by pretty much the same principles as those of private lands.

2. WAGES.

In the old village communities, wages as such did not exist, but all labourers were remunerated by portions of the produce. Custom still influences wages to a large extent; the amount of influence, however, varies according to the nature of the industry and the enlightenment of the labouring population. Broadly speaking, it may be said that wages are comparatively fixed. They are not half so elastic and responsive to changes of circumstances as

Wages in
ancient village-
communities,

in modern
times.

¹See chap. xii.

in Europe and America. They do, no doubt, fluctuate on either side of the customary rates, but such fluctuations are always confined within narrow limits.

Influence of
competition.

Competition is, however, becoming daily more and more important in the regulation of wages. In those parts of the country in which agriculture is the chief occupation of the people, there is very little demand for hired labour, and consequently a low and non-progressive scale of wages is found. This is specially the case where the population is very dense.¹ But a great density of population does not always cause a low rate of wages. Where, side by side with high density, there is a great demand for labour, wages are high. In the cities, for instance, wages are high. So also, wherever a demand of labour is created by large undertakings, such as the establishment of mills or the construction of railways, wages rise. On the other hand, in the sparsest parts of the country, wages are exceedingly low, because there is no demand for labour. But though competition is an active factor, the scope given for its operation is limited. Labour is still comparatively immobile. The circumstances which cause the movement of labour are rare; and the low standard of subsistence of the labourer, his social sentiments, and his ignorance are against such movement.

¹Many economists regard the current doctrine of wages as being founded on a misconception. "In truth," says Mr. Henry George, "wages are produced by the labour for which they are paid, and should, other things being equal, increase with the number of labourers." According to Mr. Walker, wages represent the residual share in distribution.

Wage-earners in different employments may be classified as skilled and unskilled labourers. In the manufacturing industries, the labourers earn wages mostly as unskilled workmen, skilled labour being in the main supplied by foreigners. In such cases, the remuneration of labour represents a very small proportion of the total produce. This is the injustice of the capitalistic system of production against which labourers are fighting in every country.

Skilled and
unskilled
labour.

Wages differ not only in different employments but also in the same employment according to differences of locality and circumstances. An average wage, therefore, for India generally has little meaning; but, for purposes of comparison with other countries, it may be calculated at 2 as. (2d.) per diem for the able-bodied unskilled labourer. The average wage of the child-labourer or woman-labourer is, of course, less.

Average wage.

Various kinds of wages are prevalent in India. In the factories, and in all employments in which large numbers of people are engaged, wages are paid according to time. In the handicrafts and the domestic industries, the usual system is of task- or piece-wages. In some cases wages are regulated by special contract; in some others a certain minimum is agreed upon, and if the work is done better, a higher rate is given. Lastly, when all the members of a family are engaged for any work, they are paid collectively.¹

Kinds of
wages.

¹These different kinds may be technically called time-wages, piece-wages, task-wages, contract wages, progressive wages, and collective wages respectively.

System of
payment.

The system of payment was formerly in kind; but now money payment has become the rule. In the remote villages the agricultural labourers, and sometimes the artisans and domestic servants also, are still remunerated by a percentage of the crop-yield. There is a tendency, however, everywhere for money-wages to be substituted for wages in kind.

Rise in wages,
real and
nominal.

Money-wages have increased during the last fifty years,¹ but the rise in wages has not kept pace with the rise in prices. The wages of the two chief classes of labourers, artisans and agricultural labourers, have risen in the Punjab and in Bengal much more than in the other provinces of India during the last 40 years. The indicated rates of increase for agricultural labour have been 29 per cent. in Bengal and 49 in the Punjab; and for artisan labour 48 per cent. in Bengal and 50 per cent. in the Punjab. But during this period the rise in the prices of the food-grains has been much higher proportionally. For instance, in 1873 the average price of common rice for India was 18·2 seers per rupee, while in 1909-10 it was only 11 seers. The average for Bengal has risen still higher. In 1862 rice sold in Bengal at the rate of 29½ seers for the rupee, in 1910 only 9 seers. Thus we find that although nominal wages have increased, real wages have decreased.

Connection
between prices
and wages.

The question which suggests itself here is—Is there any connection between prices and wages? There is certainly some sort of connection, but it does not always manifest itself in the same result.

¹See Appendix.

The connection is, in fact, rather peculiar. The most direct and perceptible connection is found in a reduction in wages when food is inordinately dear. The reason is this. The failure of the crops destroys a large portion of the funds available for paying wages. At the same time, the number of people seeking employment is greatly enhanced, and labourers are found ready to work in return merely for the barest subsistence. Thus a decrease in the demand for labour and an increase in its supply cause the wages to fall. When, however, a rise in the price of produce is due to a larger demand, and extra profits are thus obtained, the expansion of business increases the demand for labour, and wages rise.

3. INTEREST

The capital of most of the large industries is raised in Europe, and the interest on such capital, together with the profits, has to be paid abroad. The subscribed capital of a firm is never sufficient for the carrying on of the business, and every firm has, therefore, to borrow money on occasions. This they get from the Presidency and other banks. The rate of interest, though it is theoretically the same for all at any given time and place, depends in practice upon the security which a firm can offer and the period of time for which money is borrowed. This rate varies from day to day according to the demand for money; but the rate is generally high in winter and low in summer. The average rate of interest is usually higher than in

Capital mostly
raised in
Europe,

and borrowed
from banks.

Variations in
the rate of
interest.

Europe. The banks keep deposits of money, for which they pay interest to the depositors, the rates being of course lower than those at which they lend. The Government and other public bodies also occasionally borrow money. The Government rate of interest is at present $3\frac{1}{2}$ per cent.

The money-lender.

Agricultural capital is supplied by the village money-lender. The agriculturist is almost always poor, and he usually cultivates his land with capital borrowed from the money-lender for which he has to pay high rates of interest. The practice of borrowing money is almost universal. It is frequently a part of the bargain that the produce should be delivered to the money-lender at a certain price, which is always below the market rate. Sometimes he becomes heavily indebted, and the debt often runs through the life of the borrower and is inherited by his heirs.

Opinion of a high official.
The money-lender and the creditor.
Usual arrangements.

A high official of the Government once wrote, "A great number of the agricultural community appear to have a kind of running account with the mahajan; he advances them seed, giving one *seer* less than the market price. In other instances the advance is made at seed-time on the *sawai* principle, which means a return at harvest of one-fourth more than the quantity borrowed at seed-time. He lends money, moreover, for the inevitable marriage and for the equally inevitable lawsuit. When the tenant falls on evil days, he would advance him rent to save him from ejectment. He is, in fact, at all times, the resource to which the needy agriculturist goes for relief; and the consequence is that a large

proportion of the cultivating community is seldom free from the mahajan's influence. When the crops are reaped, the greater portion finds its way to his granary; the tenant retains a share for his immediate use, which is seldom sufficient for the consumption of his household until the following seed-time. Long before the next harvest approaches he has, as a rule, to have recourse to the mahajan. The system is not without its advantages in hard times; it is to the interest of the creditor as well as the debtor that the latter should live; there is a community of interest which secures him from starvation."

Community of interest.

The money-lender does, no doubt, exploit the misery of the poor cultivator, but he renders him good service, in so far as he enables him to live. Sir F. H. Nicholson says, "On this subject there are two opinions, one of which regards him as on the whole rather beneficent and friendly, as a sort of partner with the ryot, supplying the needs of the latter, maintaining him in times of misfortune. Others, again, regard him as a beast of prey seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle. As society and credit are at present constituted, he fills an absolute gap, and is a rural necessity. On the other hand, he is most undoubtedly an expensive and dangerous necessity. He has been found in India from time immemorial."

Sir F. Nicholson's view.

The money-lender a dangerous necessity.

Credit is almost an inevitable condition of small farming. Moreover, it is necessary for the purpose of undertaking any agricultural improvement, such

Need of facile credit,

as digging of wells, etc. The late Mr. Justice Ranade advocated the establishment of credit institutions all over India, so that agriculturists may get loans at low rates of interest. Facile credit is often very beneficial, but it has a drawback also. It is like a double-edged weapon. There is the danger of its leading ignorant and thriftless cultivators to further indebtedness. Easy credit may sometimes mean reckless borrowing.

its danger.

Measures for
checking
peasant's
indebtedness.

Land Aliena-
tion Act.
Co-operative
Credit
Societies.

Various measures have been proposed from time to time to check the indebtedness of the cultivator and thus to improve his condition. Two measures have been recently adopted by the Government in this connection, namely, The Punjab Land Alienation Act and the Co-operative Credit Societies Act. The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest, and, at the same time, devise safeguards against imprudent and reckless borrowing. The credit associations started in Germany and other countries of Europe under the influence of Reiffeisen fulfil both these conditions. The principles of action of these associations are those of self-help, co-operation, solidarity, prudence, thrift, and public spirit.

Co-operative
Grain Banks.

In Bengal, a number of public-spirited gentlemen have established Co-operative Grain Banks (*Dharmagolas*) in several villages, which are reported to be working well. The cultivators deposit portions of their produce in these banks, which in times of need they are allowed to withdraw. Needy members are also given loans of grains from these

deposits. The chief merits of the system are its simplicity and its accord with the social sentiments of the people. But its defect is that the grain cannot be invested in any profitable undertaking so as to yield interest and profit. Moreover, there is the risk of loss through deterioration or waste. But the idea is certainly an excellent one, and it ought to be given a fair trial.

4. PROFITS¹

The profits of manufactures are in every country higher than those of agriculture. In other words, as a money-making process, agriculture is not so profitable a business as manufacture. Again, as we have already seen, agriculture has to depend on several uncertain factors, such as drought or excessive rain, and the profits are consequently more uncertain than in manufacture. Manufacture involves various stages in production, and the profits are thus obtained by a larger number of persons.

Profits of
manufacture
compared with
those of
agriculture.

Full details regarding the profits of the different industries of India are not available ; but the reports published by the larger business firms give us some idea of the general rates of profits. These may be said to range from 8 to 15 per cent. Sometimes, the profits of certain industries go up as high as 30 or 40 per cent., but such cases are exceptional. Profits

Statistics.

¹Professor Marshall does not regard profits as a separate entity. He divides interest into two parts—interest proper and the profits of management.

Some points related to this subject have been treated in chapters vi. and vii.

are generally high in the mining and jute industries. Statistics of profits in the small industries are very difficult to gather, but it will not be incorrect to say in a general way that they are comparatively low.

Profits of the
middleman.

In considering this topic we should take into account the profits of a class of persons who cannot properly be called organisers of industry, but who stand between the producer and the trader. These are middlemen who sometimes make very large profits. In the villages they are generally the money-lenders. They purchase wholesale the surplus produce of corn from the cultivators and send it to other parts of the country.

So much for the distribution of the produce. It is not necessary, however, that the shares should go to different persons. Very often, all the factors are controlled by the same person, and in such cases all the shares would go to him. India is a country mainly of small industries which are carried on by the workers on their own account. They supply the labour as well as the small capital required, and they are themselves the organisers. In a large number of cases, therefore, the whole of the produce goes to the same persons and the question of distribution does not arise at all. In the institution of peasant properties also, as we have seen, there is hardly any distribution among different parties. Thus, at present, the economic problems of India are mainly those of production rather than of distribution; but with the growth of

large-scale industries, the problems of distribution are likely to assume a great importance in future.¹

¹ The effects of the misdirection and waste of capital and labour due to the inequitable distribution of wealth in the west have been thus generalised by Mr. L. C. Chiozza Money: "The unduly large share of the national dividend possessed by the rich produces in them grave faults of character and purpose which make them indifferent administrators of the capital without which labour is powerless. The unduly small share of the national dividend possessed by the poor is the source of a stream of moral and physical evils which, mingling with the waters of death which descend from the high levels of luxury, produce effects whose causation is only obscure as long as we neglect the study of the Error of Distribution" (*Riches and Poverty*, p. 152).

CHAPTER IX

EXCHANGE

1. A BRIEF HISTORY OF INDIAN COMMERCE

Trade in
ancient times,

FROM the very earliest times, trade between India and the neighbouring countries was carried on by land as well as by sea. India was once "the seat of commerce."

by sea,

As early as the sixth or seventh century B.C., India had commercial relations with Italy, Greece, Egypt, Phoenicia, Arabia, Syria, Persia, China, the Malay Peninsula, and the islands of the Indian Archipelago. The Hindus built ships and navigated the ocean as early as the age of Manu's Code. Later, they held in their hands all the threads of international commerce, whether overland or by sea. The unknown author of that remarkable book, the *Periplus of the Erythraean Sea*, describes the commerce in detail,¹ and from him we learn that Indian vessels frequented the Arabian Sea, the Red Sea, the Persian Gulf, and the Indian Ocean, and his

¹ Vide *Periplus of the Erythraean Sea*, translated by J. W. M'Crindle. The term Erythraean Sea was applied to the Indian Ocean with its bays and gulfs.

testimony is corroborated by that of other ancient historians and geographers, such as Pliny, Arrian, Strabo, and Ptolemy. The chief Indian seaports were: Barygaza (modern Broach), Saurstra (Surat), Masalipatan, Barbarikon, Mouziris, and Nelkunda. There were other commercial towns; some of which also attained to great eminence. The value of this maritime commerce must have been very considerable.¹ The chief articles of export were rich apparels made of silk and cotton, pearls, diamonds and other precious stones, ivory, spices, drugs and aromatics; and those of import were gold, silver, brass, copper, and tin. A brisk coastal trade was also maintained between the seaport towns.

Trade by land with Central Asia, China, and by land. other parts of Asia, as well as some countries of Europe, was carried on by caravans. There were several trade-routes which were availed of by the merchants. Besides, an active internal trade was carried on between the different parts of the country itself. The great rivers served as commercial routes, and royal roads connected the important cities.

The commercial activities were continued in full vigour till the ninth or tenth century A.D. During the Mahomedan rule, however, maritime commerce was gradually abandoned; but the trade intercourse by land was maintained. In 1498, the voyage of Vasco da Gama round the Cape of Good Hope opened a route for commerce between India and

In mediaeval times.

¹ Strabo says: "I found that about 120 ships sail from Myos Hormos to India."

Europe, so much easier, cheaper, and safer than any that had previously been used, as to completely change the destinies of the country and its relations to the general affairs of the world. Foreign maritime commerce was thus once again revived, this time, however, by Europeans. In the seventeenth and eighteenth centuries, the Dutch, the Portuguese, the French, and the English companies competed with one another for the largest share in the commerce with India. Ultimately, the English East India Company was able to practically oust the other companies from the Indian waters. The invention of steamships led to a further increase of the maritime commerce. And lastly, the excavation of the Suez Canal brought India much nearer to Europe and gave a fresh impetus to the commercial development of the country.

The foreign trade of India is now steadily increasing, but Indians have very little share in it. The bulk of the internal trade still remains in the hands of Indians, but even in this they hardly display the enterprise, pluck, foresight, and resourcefulness which are essential for success in business.

2. THE INDIGENOUS SYSTEM OF INLAND TRADE

Every village has its resident traders. In many instances the chief trader combines the functions of the money-lender and grain-merchant with his own proper vocation. Buying and selling are done in the markets, which meet daily in the more important villages and on fixed days in the week in other

Indigenous
system of
internal trade.
The village
trader.

places. In addition to the shopkeepers, there are hawkers or itinerant sellers who supply the people with articles of merchandise in their homes. The religious festivals and fairs, some of which are attended by large numbers of pilgrims and visitors, also serve as important marts for the exchange of commodities.¹

Fairs and religious festivals.

A portion of the village produce is sold in the village markets for local consumption, and the surplus is handed over to the agent in the towns and thence dispatched to trade centres in other parts of the country, or exported out of it. Imported merchandise is distributed by the same machinery working in the opposite direction. Internal trade may be divided into two kinds: (a) traffic with the ports, and (b) commerce between different parts of the country. The former is largely concerned with the collection of manufactured products for export, and with the distribution of imported merchandise; the latter with supplying the surplus produce of one part to the other parts of the country. Trade passes through the hands of a number of middlemen and is consequently hampered to no small extent.

Two kinds of internal trade.

Towns spring up where trade activity increases, and historical cities lose their importance as soon as they cease to be trade centres.

Growth and decay of towns.

¹ Vast concourses of people gather at the Kumbha melas which are held at Allahabad, Hardwar, and other places. The car-festival at Puri and the fairs at Harihar Chattra are attended by people from the most distant parts of the country. These fairs serve not only the purpose of marts but also of exhibitions.

Trading
castes.

Employment in trade often gives rise to trading castes. These castes have now lost much of the importance which they once possessed, but even now they cannot wholly be neglected. The Marwaris of Rajputana are found in almost every part of the country. In the Bombay Presidency, the largest share of trade is in the hands of the Parsis and the Bhatiyas, while the Baniyas still monopolise the bulk of the trade of Northern India.

3. TRANSPORT

The old
system.

For the growth of trade and commerce the development of means of rapid and cheap transportation is essential. Till the middle of the last century pack-animals, such as bullocks, horses, camels, and asses, or carts drawn by these animals, were the only instruments of transport by land; while country-made boats were the instruments of riverine transport. With the development of railway communication, the importance of pack-animals and carts has diminished, but they are still largely utilised for carrying articles to the towns, ports, or railway stations.

Means of
communica-
tion in early
times.

From the very earliest times, the construction of roads and canals was considered among the chief duties of the rulers. Under the Hindu as well as the Mahomedan rule, roads and canals were constructed,¹ but their number was few and condition not very satisfactory. The great rivers did, no

¹ The Jumna Canal, constructed by the Mahomedan Emperors, must be considered as a great achievement for those days.

doubt, furnish means of communication and some facilities of transport, but they were found insufficient for the purpose of keeping up a constant intercourse between the different parts of the country.

In the early days of the East India Company, the Government did not recognise the execution of public works as a necessary part of their policy.¹ In the latter years of the Company, however, matters began to improve, and after the Mutiny of 1857, and the assumption of the government of India by the Crown, the construction of public works went on with increasing speed. Railways now connect all the principal districts and cities, the great rivers have been bridged, the country has been covered with roads, and the rivers and canals afford increasing facilities of transport. Over thirty-one thousand miles of railway are now open, and total length of roads is almost beyond calculation.

Though the primary objects of the construction of railways were strategic and administrative, their economic effect has been immense. Cheap, easy, and quick communication enables the surplus population of congested areas to move to the more thinly populated parts of the country where labour alone is needed to make the soil yield bountiful harvests. There the people can turn their labour to better account and command higher rates of remuneration. The railways have helped to equalise to a large extent prices in the different parts of the

Railways.

Object of railways, strategic and administrative.

Economic effects : equalisation of population,

equalisation of prices,

¹ Vide *Imperial Gazetteer*, vol. iii.

country. Under their influence, the whole of India is fast tending to become one market for the more important articles. The value of railways is most realised in periods of famine. Famines are rarely universal throughout India. Generally, they affect particular tracts, and it often happens when one area is suffering, another has an abundant harvest.

mitigation of
the horrors of
famine,

Now the railways have made it possible for the deficiency of the former to be made good out of the surplus of the latter. They thus greatly help in mitigating the sufferings of the starving population.

impetus to
economic
activity.

Social, moral,
and political
effects.

Besides, the railways have given a great impetus to the activities of the people. The influence of railways on the moral and social life of the people has been considerable. Their political effect is seen in this that they have made possible an efficient system of centralised administration.

Roads.

The railways, instead of superseding the roads, have actually increased the traffic on them. Side by side with the construction of railways, progress has been made with the construction of roads. Trunk roads now run to and from all important centres, and innumerable feeder-roads connect the trunk roads with one another.

Steamship
communica-
tion.

Steamship communication has been developed in those parts where the rivers are navigable. The canals also offer some facilities of communication and transport. It is, however, in maritime transport that the greatest development has taken place.

Lastly, the post office, the telegraph, and the telephone afford wonderful facilities for the

communication of intelligence, so that the slightest alteration in trade conditions in a particular place is now almost instantaneously reflected in the most distant parts of the country.

Communica-
tion of
intelligence.

4. THE PRESENT POSITION OF COMMERCE AND TRADE

In a vast country like India, the internal trade cannot but be immense, and the volume is daily increasing. But it is not possible to measure this volume of trade. The railway goods traffic returns, however, serve as a fairly reliable barometer of India's mercantile activity. In 1909-10, their total earnings for goods traffic amounted to Rs. 28 crores.

Commercial
activity.

The foreign commerce of India, although only a fraction of the trade, is an index to the total value of trade. Nothing can give the reader a more accurate idea of the present position of Indian commerce than a glance at the latest trade returns available. The total value of imports in the year 1909-10 was 154.48 crores of rupees (£102.99 millions). Of this, the value of merchandise was Rs. 117.06 crores, and that of treasure (gold and silver) Rs. 37.42 crores.

Foreign
commerce.

Imports:

The largest class of imports was that of articles manufactured and partly manufactured. It formed about 51 per cent. of the total imports. The value of cotton piece-goods and manufactures was Rs. 39.37 crores, or about 34 per cent. of the total values of

Cotton piece-
goods.

all imports.¹ Of the cotton goods Great Britain supplied 99 per cent. of the greys, 98 per cent. of the whites, and 93·5 per cent. of the coloured goods. The value of woollen manufactures was Rs. 2·08 crores, and that of silk goods, Rs. 226·69 lakhs. Of the woollen goods Germany held the market to the extent of 80 per cent. of the total values, but Cawnpore and Bangalore are competing with shawls woven with Indian wool, decidedly superior in quality to the general level of foreign imports. The imports of silk goods from the Far East represented 91·3 per cent. of the total. Glass and glassware were imported of the value of Rs. 10·74 lakhs, and paper and pasteboard, Rs. 8·67 lakhs. The value of metals and manufactures thereof was Rs. 26·03 crores. Railway plant and rolling-stock was imported of the value of Rs. 5·43 crores; machinery and mill-work, Rs. 5·07 crores; metals, Rs. 12·77 crores; and hardware and cutlery, Rs. 2·77 crores. Of the articles of food and drink imported the most important was sugar, of which Rs. 10·98 crores' worth was imported. The chief sources of supply of cane-sugar are Java and Mauritius, and those of beet sugar are Austria-Hungary and Germany. The value of imported salt was Rs. 68·88 lakhs, of which by far the largest proportion came from the United Kingdom. The other sources of supply were Spain, Germany, Turkey, Aden, and Egypt. Other articles of food imported were wines and spirits, fruit and vegetables, salted fish, biscuits, bottled provisions,

Woollen manu-
factures and
Silk goods.

Glass.

Paper.

Metals and
metallic manu-
factures.

Sugar.

Salt.

Other food
articles.

¹ There has been a slight decline during the last few years.

condensed milk, spices, and tea. Chemical drugs and medicines were imported of the value of Rs. 80·46 lakhs. The value of oils imported was Rs. 3·35 crores. The import of raw materials, etc., amounted to Rs. 4·8 crores; and that of precious stones and pearls, Rs. 12·91 lakhs.

Chemical
drugs.

Oils.

Raw materials.

The value of exports, representing 55·7 per cent. of the total trade, amounted to Rs. 194·12 crores (£129·41 millions).

Exports :

The value of Indian merchandise formed 52·9 per cent. of the total trade, and 94·9 per cent. of the total exports. Exports of treasure amounted to Rs. 6·39 crores, of which gold was worth Rs. 3·35 crores; and silver, Rs. 3·04 crores.

Treasure.

Raw materials and unmanufactured articles formed the largest class of exports, representing 45·3 per cent. of the total exports of Indian merchandise. The total value of exports of this class was Rs. 83·47 crores. The export of raw cotton amounted to Rs. 31·28 crores; seeds, Rs. 18·73 crores; raw jute, Rs. 15·09 crores; raw hides and skins, Rs. 9·65 crores; raw wool, Rs. 2·86 crores; coal and coke, Rs. 67·14 lakhs.

Raw materials:

cotton,

jute,
seeds,
hides and
skins,
wool,
coal and coke

Articles of food and drink, representing 26·6 per cent. of the exports of Indian merchandise amounted to Rs. 49·03 crores. Of this, the value of wheat and wheat flour was Rs. 13·3 crores (£8·86 millions), and rice Rs. 18·24 crores (£12·16 millions). Germany was the chief among the occidental purchasers of Indian rice, but the exports to the United Kingdom and Austria also were considerable. As regards wheat, the United Kingdom

Wheat.

Tea.

took 84·3 per cent. of the total exports, Belgium, Germany, and France being the other European purchasers. The export of tea amounted in value to Rs. 11·7 crores. Here, again, the United Kingdom was by far the largest purchaser, the percentage of her purchases being 75·9 per cent of the total exports. The exports of coffee are dwindling steadily.

Jute manu-
factures.Cotton manu-
factures.Chemicals and
drugs.
Oil.

Re-exports.

Of the articles manufactured and partly manufactured, jute manufactures had the largest export, the value being Rs. 17·1 crores. The next in importance were the cotton manufactures, which amounted to Rs. 11·91 crores. The other articles of this class were coir, tanned skins and hides, and lac.

The exports of chemicals and drugs amounted to Rs. 11·26 crores. The total value of oil exported was Rs. 1·21 crores. The export of metals and manufactures thereof amounted to Rs. 1·11 crores; the most important article under this head was manganese. The re-exports of foreign merchandise amounted to Rs. 3·39 crores (£2·26 millions).

The value of imports has increased from Rs. 50,63,14,000 to Rs. 115,92,20,000 during the last twenty-five years. During the same period the exports increased from Rs. 79,44,53,000 to Rs. 1,67,81,13,000.

Trade with
principal
countries.

The total trade with the United Kingdom amounted in 1909-10 to Rs. 122·61 crores; the trade with British Possessions other than the United Kingdom amounted to Rs. 41·05 crores, and that with foreign countries amounted to Rs. 141·12 crores. The following statement shows the proportion of

India's trade, export and import, with each of the principal countries : ¹

	Export to (per cent.)	Import from (per cent.)
United Kingdom - - -	26·3	62·5
The British Possessions - -	16·9	8·1
Germany - - - -	9·5	3·6
China - - - -	9·9	1·9
United States - - -	7·6	3·1
Japan - - - -	6·7	2·1
Belgium - - - -	5·4	3·9
France - - - -	6·5	1·5
Java - - - -	0·8	6·8
Austria-Hungary - - -	3·5	2·3
Straits Settlements - -	3·3	2·5

The following table shows the progress in trade made during the last twenty-five years : ²

Progress
trade.

	EXPORTS. ³		IMPORTS.	
	Value (crores of rupees).	Centesimal variations.	Value (crores of rupees).	Centesimal variations.
Average, 1880-81 } to 1884-85 - }	79·44	100	50·63	100
Average, 1905-6 } to 1909-10 - }	167·81	211	115·92	228·9

The bulk of the carrying trade with India is

¹ For a fuller account see the *Trade and Navigation of India* and the *Review of the Trade of India*.

² This statement refers only to imports and exports of merchandise.

³ This statement does not include the exports of imported goods. The re-exports decreased during the last twenty years from 4·55 crores to 3·46 crores.

Shipping.

done by English ships.¹ During the year 1909-10, the tonnage under the British flag was nearly 78 per cent., and including the Indian register, represented about 80 per cent. of the whole. The number of vessels under foreign flags which entered and left Indian ports was 1086, of which the German and Austrian vessels represented nearly two-thirds. The other countries whose vessels do the carrying trade with India are Norway, Italy, Holland, Japan, and France.

Frontier trade.

The trade across the land frontiers of India is equivalent to less than five per cent. of her sea-borne trade. The statistics of this trade are incomplete, and not wholly reliable. The approximate value of the frontier trade was during the year 1909-10 as follows: Imports, Rs. 3,45,68,000, and exports, Rs. 15,27,39,000.

The balance of trade.

From the foregoing account of the commerce of India we find that the exports of India exceed her imports. The average excess of exports over imports during the last five years was Rs. 20·11 crores including Government transactions, and Rs. 33·22 crores, excluding such transactions.² India has a very favourable balance of trade. But she receives payment in bullion only for a portion of this balance. For the rest she receives no direct return. This latter amount represents the Home Charges, which are often regarded as a drain from the country.

¹ The popular notion that 'trade follows the flag' is true in this case.

² The figures in this section have been mostly taken from the *Review of the Trade of India*, 1909-10, to which the reader is referred for further details.

5. PRICES

From about the middle of the nineteenth century a tendency towards a rise of prices became visible. This tendency has become more progressive during the last twenty-five years, and during the last ten years the rise in prices has been enormous. The decennial average for the period 1891 to 1900 was higher than the average for the previous decennial period, and the average for the period 1901-10 higher than that for the period 1891-1900. This rise has been especially marked in the prices of food-grains. The following statement shows the increase (in the year 1909) in the average retail prices of the principal food-grains as compared with those of 1873 (the prices of 1873 being taken as 100):¹

Rice	-	-	-	-	-	222	Index- numbers.
Wheat	-	-	-	-	-	201	
Jawar	-	-	-	-	-	176	
Bajra	-	-	-	-	-	168	
Ragi	-	-	-	-	-	247	
Gram	-	-	-	-	-	185	
Barley	-	-	-	-	-	165	

The index-number for the seven food-grains taken together is 195. In 1908 the prices were even higher, and the index-number of food-grains then rose to 231. The index-number for articles im-

¹For details see *Prices and Wages in India*, 1909-10. A statement giving the causes of the rise of prices for every quinquennium will be found in an Appendix. Another Appendix gives the variations in prices in the United Kingdom during the last forty years, which shows that prices have fallen a good deal in that country.

ported in 1908 was 118, and for articles consumed or exported was 155.

Causes of the
rise.

Now the question is, what are the causes of this rise in prices?¹ Prices, as we know, are the expression of the relation of commodities to the medium of exchange. A variation can only ensue when there is a disturbance of this relation. A rise in prices can thus be due to one of three causes: (1) an increase in the demand for commodities; (2) a decrease in their supply; (3) an increase in the quantity of the medium or the rapidity of its exchange. It is difficult to say to which of these causes the rise in prices is due, or whether it is due to a combination of two or all of these causes, and, if the latter be the case, in what proportion it is due to each of them. The population of the country has increased only slightly, but there has been a greater demand in other countries for Indian food-products. It is not easy, however, to ascertain how far the rise can be attributed to an increase of demand. The statistics published by the Government show that the area of the cultivation of food-crops has not diminished, but has rather increased; but these statistics are not wholly reliable, and it is not possible to say with certainty whether the total production of each of the important food-grains has increased or decreased. As for the medium of exchange, it is a factor of great complexity even in India. It consists not only of the coins and currency notes,

¹ The Government of India have deputed a competent officer to investigate the extent and the cause of this rise in prices.

but of bills, cheques, drafts, etc. The rapidity of exchange of the medium is a thing which cannot be measured. It is difficult to say, therefore, how far the rise of prices is due to this cause, but it is not improbable that the artificial regulation of the supply of the silver currency (by which the automatic regulation of the money supply is prevented), has something to do with this rise. The rise may also be regarded, though in a small degree, as a part of the world-movement towards a rise of prices which has become manifest during the last few years.¹

The effects of this rise have been different on Effects.

¹The writer of an article headed "Prices and Currency" in the *Pioneer Mail* (April 28, 1911) suggests that the chief cause of this rise in prices is an inflation of the currency, the reasons assigned for such inflation being the absence of a gold standard and the comparatively high rate of interest which prevails in India. Says the writer: "Taking Mr. Atkinson's figures (in which the prices of 1868-1876 are taken as 100) we find that the index-number for food-prices, far and away the most important item, which stood in 1880 at 108, had fallen to 103 in 1887. In 1888 it rose to 111, and by 1892 it had risen to 138, falling slightly in 1893, the year of the closing of the mints, to 131. In the years 1896 and 1897, years affected by famine, it rose to 133 and 171 respectively, falling, however, in the next two years to 122. 1900 was, of course, a year of severe famine and scarcity, and the index-number rose accordingly to 152 (in 1900) and 148 in 1901. It fell in the following years, and in 1904 stood at 118, the figure of 1890. From that time it rose steadily to 139 in 1905, 167 in 1906, 178 in 1907, and 202 in 1908, a year, however, affected by scarcity. Since then, under the influence of good harvests, prices have eased somewhat, but they are still well above the level of 1904." These variations, as the writer points out, in the level of prices exhibit a close correspondence with the variations in the issues of rupees from the mint.

the different classes of society. As all members of society are consumers of food-grains, the rise of prices has affected all to some extent. But the cultivators, especially those who hold land at fixed rentals, have reaped an advantage. The trading classes have also benefited by it. But the wage-earners have undoubtedly suffered a loss, as the rise in wages has not kept pace with the rise in prices. This loss has become serious in cases in which the wages have been more or less customary or where the incomes have been more or less fixed. The rise in prices has placed a severe burden on the middle classes of society through the increased cost of living. It is interesting to note that as a consequence of this rise in prices, the debtor has reaped an advantage, but the creditor has suffered a rather severe loss.

CHAPTER X

EXCHANGE—(*Continued*)

1. CURRENCY

MONEY was in use in India in the very earliest times of which we have record. At the very dawn of history, we find the Indian people already well advanced in civilisation. They were at the time actually entering upon what is called the manufacturing and commercial stage. Such a state of society implies exchange, and exchange implies the use of money.

Antiquity of
money in
India,

The great antiquity of Indian money is proved from various sources, the chief amongst which are (a) the most ancient accounts of the population and condition of society in India; (b) the Vedic writings; (c) the code of Manu; (d) the Buddhistic works; (e) numismatic and other archaeological remains; and (f) comparative philology.¹ It is believed that the standard of money was essentially and permanently of copper, but gold and silver² coins were

proved from
various
sources.

¹ Del Mar, *History of Money*, p. 58.

² Historians believe that silver was in the earliest period more valuable than gold.

used as adjuncts to or multiples of the copper coins. The sovereigns did not, however, claim or enforce the prerogative of coining gold or silver. Various other substances, such as clay, lacquer, and shells (cowries) were also used for exchange.

During
Mahomedan
rule.

During the Mahomedan rule, a reform of the currency was undertaken, and attempts were made to make silver the standard of money. At the same time the rulers prohibited the coining of gold or silver by private persons. Mahomed Tughlak entertained a new scheme of finance, in pursuance of which he at first debased the silver coins, and ultimately issued copper pieces, which were to circulate at the nominal value of silver coins.¹ But this bold scheme, which was a notable and instructive monetary experiment, failed. The discovery of America and increased commercial relations with Europe led to an influx of silver into India in exchange for spices and gold; and Akbar the Great once more adopted silver as his standard, but his scheme did not wholly succeed.

Under the
East India
Company.

During the Mahomedan rule, coins were struck at various places, and they were of different weights. In the seventeenth century, the East India Company also began to issue coins for use in their factories. As soon as the Company became the virtual rulers of the country, they formed the idea of making the currency uniform. This, however, was realised by gradual steps. The first step that was taken was to replace the old miscellaneous coinages by four,

¹ This experiment was really a forerunner of the modern system of paper money.

denominations of rupees and fewer kinds of gold coins. In 1835, a uniform currency was introduced for the whole of British India. The rupee, which weighed 180 grains and contained 165 grains of pure silver, was made the standard coin. Smaller silver pieces of the same standard were also coined.

India was thus at this time a silver-standard country.¹ Silver was received in the Indian mints without limit when tendered for coinage. Consequently, the value of the rupee in gold depended on the gold price of the silver bullion. The discovery of new silver mines and the demonetisation of silver by many civilised countries caused a heavy fall in the value of silver. Between 1871 and 1893 the exchange value of the rupee fell almost continuously, and the Government apprehended a further fall. The rate fell from 2s. in 1871 to 1s. 3d. in 1892. Although for internal purposes it did not matter much, yet in the trade relations of India with gold-standard countries it produced very bad results. The violent oscillations in the rate of exchange upset trade conditions and hindered the development of India by foreign capital. Besides, the Government of India suffered great loss in making remittances to meet its obligations in England. The number of rupees required for defraying the sterling expenditure in England increased with each fall in the exchange-rate of the

India a silver-standard country till 1893.

Fall in the value of rupee.

Consequences of the fall.

¹In the eighteenth century, the East India Company first adopted the gold standard, but in 1793 the standard was changed from gold to silver, which latter metal remained the monetary basis until the closing years of the last century.

rupee. The Government had also to pay compensation allowances to the British officials to make good the loss which they suffered. All this rendered necessary a considerable increase of taxation. The violent fluctuations in the value of the rupee made the preparation of the Budget an exceedingly difficult task. In view of this embarrassment, the Government tried for a number of years to promote a system of international bimetallism. But when their efforts became ineffectual they appointed, in 1892, a committee, under the presidency of Lord Herschell, to consider and report on the matter. In accordance with the recommendations of the committee, it was decided, in 1893, to close the mints to the free and unlimited coinage of silver; but the right was given to the public of demanding from the Government rupees in exchange for gold at the rate of 15 rupees for £1 without limit of amount. The exchange value of the rupee thus ceased to coincide with the price of silver, and was artificially fixed at 1s. 4d. Silver ceased to be the standard of value, though it continued to be used as the chief material of currency.

The Herschell
committee.

In 1898, another committee was appointed, under the chairmanship of Sir Henry Fowler (afterwards Lord Wolverhampton). The Fowler committee reported in 1899.¹ They were in favour of a gold standard, and they recommended that the decision reached on the recommendations of the Herschell committee should be maintained, and that the English sovereign should be declared legal tender in

The Fowler
committee.!!

¹ *Vide* the Report of the Fowler Committee.

India at the rate of one sovereign to 15 rupees. Their recommendations were accepted by the Government. The rupee, however, continued to be legal tender to an unlimited amount. The intention of the Government was to introduce the gold standard, and many people thought they were actually introducing it. What the Government really adopted, however, was what may be called the gold-exchange standard.¹ Gold is not used by the people for ordinary transactions—it does not circulate to any considerable extent in the form of coins.² The bulk of the metallic currency consists of coins which circulate at an artificial value far greater than their intrinsic value. The Government makes this currency exchangeable with gold in the international money market.

Adoption
of the gold-
exchange
standard.

The immediate object of the closure of the mints was to raise the value of the rupee by restricting the supply. In 1893, the rupee stood at 1s. 2½d. The Government set itself to the task of raising it to 1s. 6d. In this, however, they were disappointed. The restriction of supply caused appre-

Immediate
effect.

¹ The Government did their best to encourage the circulation of gold, but the effect was just the reverse of what they desired. Here was a practical illustration of the currency maxim that the popularity of a coin varies inversely with the anxiety of the possessor to part with it.

² The gold-exchange standard should be distinguished from the "limping standard" which exists in France. The former differs from the latter in that (1) the Government of India keeps up in support of the exchange an elaborate mechanism, which is not required in France, and (2) in France there is a large circulation of gold, whereas in India the circulation of gold is very small.

hension in the minds of the people, and brought into circulation the hoards of rupees, and the quantity which would otherwise have been used for artistic and ornamental purposes remained to swell the total silver currency. Rupees which were outside British India also naturally sought the Indian markets.

Further fall in the value of rupee.

The first result of the closure of mints, therefore, was that the rupee fell in value.¹ The Government stood out for a while, but in the end was compelled to sell them for about 1s. 1½d. During the next few years the policy of abstention from coinage was resolutely persisted in. The value of the rupee continued to fall till in January, 1895, it reached the minimum of 12½d. After that date it rose by gradual steps till in 1898 it stood at par. Since that time the value of the rupee has not fluctuated in value to any considerable extent.²

The rupee almost steady in value since 1898.

Criticism.

This currency experiment has been the subject of criticism of various sorts. The admirers of the system claim for it great and unqualified success. Experience shows, they say, that the system is perfectly stable, and great developments of trade and industry have proceeded under the system; it has settled the finances of the Government and has made possible the remission of a considerable amount of taxation; and, lastly, the wisdom of the measure is proved by the fact that many other

¹ This immediate result was foreseen by Professor J. S. Nicholson (*vide* his article entitled the "Indian Currency Experiment" in the *Contemporary Review*, 1893).

² In 1898 there was a rather marked fall in the value of the rupee.

countries have followed the example of India in this matter. Its detractors point to the inelasticity of the system as a great defect. In busy seasons an increased currency is required, which in a dull season, that is, the interval between the harvests, leads to an inflation of the currency from a want of automatic regulation, and thus raises prices. They think that it is advisable for the Government to have to do as little as possible with the currency. Further, they hold that in the case of a grave crisis it is quite possible that the system will completely break down. As for the remission of taxation, it is said that there has really been none, for the remitted taxation represents the additional amount that was taken from the taxpayers by an artificial appreciation of the rupee.¹ "There seems apparent," says an able writer, "in the policy now pursued a disposition to secure tactical advantages at the expense of the strategy necessary to ensure permanent success."²

The alternative suggested by some is the adoption of the gold standard in its entirety. But it must be remembered that India is a poor country, and that gold would be an inconveniently large standard for the bulk of the people.³ Others advocate a return to the old system. But in order to do so

Alternatives
suggested.

¹The amount of taxation remitted since 1898 has been 5 crores of rupees (*vide* G. K. Gokhale's Budget speech, 1910).

²An article entitled "India's Monetary Condition" in *Economic Journal*, December, 1910.

³Among Indians, Sir Withaldas Damodhar Thackersey is the chief advocate of the gold standard. He advises the Government to open a mint for the coinage of sovereigns in India and to introduce smaller gold pieces.

some means must be found by which to prevent a recurrence of the state of affairs which made the adoption of the gold-exchange standard necessary. Bimetallism¹ is a third alternative, but it cannot be successful unless it is accepted by at least a majority of the civilised nations.²

Devices
adopted.

In order to keep up the gold-exchange standard, and to prevent great fluctuations in the value of the rupee, the Government sells one rupee in India for 1s. 4½d. paid in London, and for 1s. 3¾d. in London paid in Calcutta. They sell one rupee in India for 1s. 4d. paid in India. They also buy a rupee in India for 1s. 3¾d. payable in London. For these transactions, a reserve is kept in gold in London and in silver in India.

Gold standard
reserve.

In accordance with a recommendation made by the Fowler committee it was decided that, with effect from the 1st of April, 1900, the net profit from the coinage of rupees should not be treated as revenue, but should be held as a special reserve, and sent to England for investment in sterling securities. Up to 1906, practically the whole amount was remitted to England and appropriated to the

¹Mr. J. S. Nicholson, in his *Money and Monetary Problems*, has tried to prove that bimetallism is both advantageous and practicable. On the other hand, an eminent authority like the late Sir Robert Giffen held that bimetallism was unattainable, and, if attained, would be dangerous.

²The gold-exchange standard has been adopted by Austria-Hungary, the Philippines, Mexico, and the Straits Settlements. Most other civilised countries have adopted the gold standard. China remains now practically the only civilised country with a silver currency.

purchase of British Government securities, the interests realised being added to the fund and invested; but in that year it was decided that a portion of the reserve should in future be held in silver in India.¹ In 1907-08 and 1908-09, in consequence of a further decision, half the profits on coinage was to have been applied to capital expenditure on railways, but the application of this decision has now been temporarily suspended.² No coinage was undertaken in 1908-09. On the 31st March, 1909, the reserve stood as follows:³

Sterling securities	-	£7,414,510	=	about 11·2 crores.
Silver (coined rupees in India)	-	10,586,734	=	„ 15·9 „
Cash in England	-	469,818	=	„ 70 lakhs.
Due from Treasury bal- ance in India	-	344	=	„ 5160 „
		<hr/>		
Total,	-	£18,471,406	=	about 28 crores. ⁴

The total amount of existing currency may be estimated at about 160 crores.

Volume of
currency.

¹ There is a considerable difference of opinion as to the propriety of this step. Some think that the ground for having part of the reserve in India is merely sentimental, and therefore not at all strong; others, on the contrary, go so far as to suggest that the whole of the reserve should be held in India.

² It would certainly be inadvisable for the Government to spend any portion of the reserve until it reaches at least double its present size.

³ *Moral and Material Progress of India*, 1908-09, p. 20.

⁴ There is a tendency in certain quarters to regard the gold standard reserve as an asset against the public debt. But this view is certainly erroneous.

Reform of
currency.

In 1896, a reform of the currency was undertaken. The "1835" rupee ceased to be re-issued, and in 1901-2 similar orders were given with respect to "1840" rupees. In 1906, bronze coins were issued as tokens for small transactions, and they are now gradually superseding the old copper coins. In 1909, one-anna nickel pieces began to be coined; and it is now in contemplation to issue half-anna nickel coins.

Paper money.

Under the Acts of 1839, 1840, and 1843, the Presidency Banks of Bengal, Bombay, and Madras were authorised to coin Notes payable on demand. But the circulation of the Notes was practically limited to the Presidency towns. An Act of 1861 repealed the previous Acts and provided for the issue of a Paper Currency through a Government Department by means of Notes of the Government of India. Since then, there have been no Bank Notes.

Denomina-
tions of Notes.

Under the Paper Currency Act, 1905, Paper Currency Notes of the following denominations, viz., Rs. 5, Rs. 10, Rs. 20, Rs. 50, Rs. 100, Rs. 500, Rs. 1000, Rs. 10,000, are issued to the public. Notes are issued in exchange for silver coins in every Paper Currency office. There are eight circles of issue having their headquarters at Calcutta, Cawnpore, Lahore, Bombay, Karachi, Madras, Calicut, and Rangoon respectively; and the Notes are legal tender only within the particular circle from which they have been issued. The Government are not legally bound to cash any Notes outside their circle of issue; but as a matter of fact, they are cashed in

Circles of
issue.

any Government Treasury (if they are not for very large sums), and also by the Presidency banks. The reason for this restriction is that if Notes were cashable in all circles the cost of carrying rupees from one part of the country to another would fall on the Government, and a considerable reserve would have to be kept at each centre to meet the demands for cash.

In 1909, the five-rupee Note, which had previously been made legal tender throughout India, was declared to be legal tender in Burma. The growing popularity of the universal five-rupee Note led the Government to further universalise the Paper Currency, and in 1910 the ten- and fifty-rupee Notes were made universal. The hundred-rupee Note has also been declared universal with effect from the 1st of April, 1911.

The
universalising
process.

The law requires that a Paper Currency reserve shall be held against the Notes equal to their full value; securities of the Government of India and the British Government may be held as part of the reserve up to a limit of 12 crores of rupees (£8,000,000), of which the British Government securities may not exceed one-sixth of the amount; the remainder must be held in gold and silver coin or bullion. On the 31st of March, 1909, the value of Notes in circulation was Rs. 454,875,000 (£30,325,000).¹ The constitution of

Volume of
paper
currency.

¹ In 1910-11, the average net circulation of Notes, after eliminating the holdings in Government reserve treasuries and in the balances at the head offices of the Presidency banks, was Rs. 40.35 crores (*vide* Budget Statement speech of the Finance Member, 1911).

Constitution of the Paper Currency reserve on the same date was as follows :¹
 paper currency reserve.

Gold	-	-	-	-	-	£1,523,414
Silver coin	-	-	-	-	-	20,759,425
Silver bullion	-	-	-	-	-	52,465
Securities of Government of India						6,667,000
Securities of British Government						1,333,000

Council bills.

It may not be out of place to briefly describe here the mode by which remittance is made from India to England. The Secretary of State for India requires money in London for meeting the expenses of his office and various other charges ; and many merchants in England want to send money to India. The whole transaction is easily made by means of Council Bills, which supersede the necessity of transferring and re-transferring bullion. Every Wednesday the Secretary of State offers bills for a certain amount for sale, and invites tenders from those who wish to remit money to India. If there is a brisk demand, the prices realised are comparatively high ; if the demand is dull, the bills are sold at comparatively low rates. The bills are sent by the buyers to India, where they are cashed by the Indian Government.² Those merchants who want to avoid the delay of seventeen or eighteen days which the bills take to reach India may purchase telegraph transfers, for which they have to pay slightly higher rates.

Telegraphic transfers.

¹ *Moral and Material Progress of India, 1908-09.*

² The same object would be attained if the Government of India bought Bills from the merchants in India and sent them to London to be cashed by the Secretary of State at the London offices of those merchants.

2. CREDIT

In the towns, there are Indian bankers or *shroffs* who generally do banking business on a small scale. In the villages, as we have seen, the *mahajan* lends money to the agriculturists and other people of the neighbourhood. The *mahajan* knows the affairs of his constituents intimately, and thus possesses a great advantage. The aggregate of the transactions of the *mahajan* and *shroffs* amounts to an enormous sum. Loans are taken by means of hand-notes (*khuts*) or pawns of jewellery, or, as is sometimes the case, by mortgages of property.

The indigenous system.

The larger banking institutions are constituted on a European model. The most important of these are the Presidency Banks. The Presidency Bank of Bengal was established in 1801, that of Bombay in 1840, and the Bank of Madras in 1843. They were originally Government institutions. They enjoyed the privilege of issuing bank notes, which privilege was withdrawn by the Act of 1861. At present, the Government have no direct connection with the Presidency Banks.

The Presidency Banks.

The constitution and management of the Presidency Banks were regulated by a number of Acts, the most important of which are the Acts of 1867, 1876, and 1907. These Acts prescribe the kind of business which they can undertake. The restrictions which the Acts impose on the Presidency Banks have the effect of preventing them from dealing in foreign exchanges (such as the buying of Council Bills), or otherwise employing their capital out of India.

Restrictions on their business.

They are the
State bankers.

In accordance with the provisions of agreements into which the Government of India have entered with the Presidency Banks, they act as bankers for the Government, paying and receiving money on its behalf and managing the public debt; they receive in return a fixed annual payment and a commission on the amount of the public debt which they manage. The Government also undertake to keep a minimum balance at each bank, or, failing this, to pay interest on the deficiency.

Extent of
business.

On the 31st of December, 1909, the extent of business of the Presidency Banks was as follows :¹

Paid-up capital -	-	-	-	£2,400,000
Reserve -	-	-	-	2,100,000
Public deposits -	-	-	-	2,131,744
Other deposits -	-	-	-	21,759,001

These banks have thus the use of about 3½ crores of public money, but the bulk of their funds consists of private deposits.

Branches.

The Presidency Banks have their branches in different parts of the country, but they are under the direct control of the central offices.

Exchange
Banks.

Next in importance to the Presidency Banks are the Exchange Banks, which are concerned mainly with the larger operations of commerce, and one of the most important of their functions is to finance the export trade. They buy and sell bills of exchange in the Indian as well as in the foreign markets. Some of them have offices in different parts of the world. The shareholders of these banks

¹ *Moral and Material Progress of India*, p. 21.

are mostly Europeans, but Indians deposit their moneys with them, on which they get interest at low rates. The most important of such banks are the Chartered Bank, the National Bank of India, and the Mercantile Bank. Some of the other larger Asiatic banking institutions, such as the Hong-Kong and Shanghai Corporation and the Yokohama Specie Bank, the Russian-Chinese Bank, and the Deutsche-Asiatische Bank, do some amount of Indian business.

The Indian Joint-Stock Banks do their business with relatively small amounts of capital. They are mainly managed by Indians themselves. There has been a considerable increase in their number during the last five years, and the total amount of their business has also expanded a great deal. At present their business is confined to the financing of the internal trade of the country; but it is to be hoped they may extend their operations to foreign exchange, and thus take advantage of foreign capital. Such banks are still few in number, and more of them are wanted; an augmentation of the capital of existing banks is also essential.

Indian Joint-Stock Banks.

The total number of joint-stock companies registered as engaged in banking and loan operations in India was 507 on the 31st of March, 1909. Forty-nine of such establishments had a paid-up capital of or exceeding Rs. 150,000.

Their number.

The deposits of the three Presidency Banks and the 16 Joint-Stock Banks, whose head offices are in India, increased from 20 crores of rupees in 1898 to 48 crores in 1908, and their cash balance increased from $6\frac{1}{2}$ crores to nearly 13 crores. During the

Progress of banking capital.

same period the deposits in India of the Exchange Banks, whose head offices are located outside India, increased from $9\frac{1}{2}$ crores to $19\frac{1}{2}$ crores, and their cash balances were doubled.

The Govern-
ment itself a
great banker.

The Government itself is also a great banker. Not only does it hold its balances and control the currencies and exchange, but it holds in deposit moneys from the people in its post offices and pays interest on them. The total amount of deposits in the Post Office Savings Bank was on 31st March, 1909, a little over $5\frac{1}{2}$ crores of rupees. The Government also advances loans to cultivators for agricultural improvements and the purchase of land, cattle, etc. This is done on a large scale in times of famine and scarcity. The Co-operative Credit Societies, started under the auspices of the Government, are institutions similar in object and scope to the Agricultural Banks of Europe.¹

¹ From the progress which co-operative credit has made during the last few years it appears that the system has obtained a foothold in India. In the year 1909-10, the total number of societies of all kinds was 3498. There was an increase during the year of 1490; the number of members increased to 231,000; and the capital to Rs. 12,400,000. In the Bombay Presidency, sanction has been given to the formation, by Sir V. Thackersey and Mr. L. Samildas, of a Central Bank, the object of which is to finance Co-operative Societies of all kinds.

CHAPTER XI

CONSUMPTION

CONSUMPTION is the aim and object of production. We cannot think of the production of wealth without having in mind the end for which it is produced. The connection between production and consumption is thus seen to be very intimate. The intimate relation is also perceived in another way. Production is made possible only by consumption, on which, therefore, the quality and quantity of production must necessarily depend to a large extent.

Relation
between con-
sumption and
production.

Consumption of commodities is determined by the standard of life¹ which a particular person fixes for himself at any given period of time, or rather which is fixed for him by his circumstances. This standard of life not only differs among individuals, but from class to class, and according to differences of occupation. In countries like England and the United States, these differences are very great; but so far as the elementary facts are concerned, the standard is very much the same for all classes. In India, on the other hand, considerable differences

Standard of
life,

varies in degree

¹ The term "Standard of comfort" is not a very happy one, and is certainly inapplicable to the case of India.

are found in regard to even the most elementary facts of life.

The standard of life, again, differs not only in degree, but in kind. The consumption of some commodities, for instance, may give physical comfort, but may be detrimental to moral well-being. It would be a narrow view of economics to confine the standard within the limits of physical needs. From our standpoint, it would be more desirable to take the term to include higher ends. We will follow Mr. Marshall, who says: "Let us take the term the Standard of Life to mean the Standard of Activities and Wants. Thus an increase in the Standard of Life implies an increase of intelligence, energy and self-respect; leading to more care and judgment in expenditure, and an avoidance of food and drink that gratify the appetite, but effect no strength, and of ways of living that are unwholesome physically and morally."

According to this view, then, the most expensive standard is not necessarily the highest. To judge whether a standard is high or low, we have to enquire whether or not it conduces to the welfare, moral and material, of the persons who have adopted it. The best consumption of wealth is that which results in the greatest benefits to individuals and to society. It is often said that the customs, the social institutions, and the religious and moral ideas of the people of India favour a standard of living which is comparatively low. This is true in a sense; but it is not in itself a thing to be regretted. We must, however, distinguish between the standard of life

and in kind.

The most expensive standard not necessarily the best.

The Indian standard.

which is the aim of the religious teachings and moral precepts, and that which results from economic circumstances beyond the control of these teachings and precepts.

It is often held that an increase of wants leads to an increase of activity. This, however, is true only of the first stages of civilisation. After a certain point, a multiplication of artificial wants is not conducive to the leading of a good life. Economics is based, it is true, on the satisfaction of wants, but that does not imply that man should go on creating wants so that he may have the pleasure of satisfying them. Certain wants present themselves to man, and they must be satisfied; but ever-increasing wants and ever-increasing effort do not conduce to the well-being of society. The real test of civilisation is not the growth of wants, but the growth of activities.

Wants and activities.

Economists divide articles of consumption into necessities and luxuries. Necessaries, again, are subdivided into necessities for existence and those for efficiency. There are, besides, certain articles which have come to be regarded as conventional necessities. Although there are no means by which each of these classes can be rigidly marked off from the others, yet this classification is useful and convenient. It must be remembered, however, that articles which are necessities to some may be luxuries to others.

Classification of articles of consumption.

In order that we may make progress towards a higher life, the physical needs—the primary wants, as they are called—must be satisfied first. The

The first necessities of life:

Food. primary wants are those of food, clothing, and shelter. We have already seen that the average income in India is very small; consequently, a large majority of the people are hardly supplied with the barest necessities.¹ As Sir Guy Fleetwood Wilson, Finance Member of the Government of India, put it: "A large proportion of the people are poor, an appreciable proportion very poor." Sir William Hunter went farther, and declared that a large proportion of the people was always on the verge of starvation. As a matter of fact, a considerable majority of the people hardly get one full meal a day. It is doubtful if all persons belonging to what is known as the "middle class" can have a sufficient quantity of nutritious diet.

Views of
eminent
officials.

Clothing. Clothing is an item of less importance in India than in Europe and America. In summer, a very small amount of clothing suffices; but in winter, warm clothing of course becomes essential, especially in Northern India, where the winter is severe. But the poor people can rarely afford to supply themselves with warm clothing, and deaths from cold are often reported. The middle class people perhaps spend more on their dress than they ought to; but in order to do this they have to curtail their expenditure in other directions. The

¹ Reliable statistics of Indian consumption are not available. The average consumption per head of the taxable commodities may be ascertained by dividing the total of such commodities by the number of the population. But as those commodities are not very important, they would not throw much light on the economic condition of the people. Moreover, a disturbing factor exists in respect of the Native States.

richer classes can afford to indulge in a little luxury in the matter of dress ; but they represent only a microscopic minority of the total population.

As for house-room, the great bulk of the people live in mud huts with thatched roofs ; and not even all members of the middle class can find accommodation which would be considered decent in Europe and America. House-room.

The primary wants are necessities for existence. An insufficient supply of these may just enable a man to keep body and soul together ; but it cannot but be detrimental to physical and moral welfare. The effect of inadequate consumption on production is immense. Ill-fed, ill-clad, ill-lodged, the mass of the people of India lead a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people, who fall easy victims to the attacks of various kinds of disease. Having no surplus to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause, such as a drought or a failure of the rains. The children of weak and unhealthy parents become weaklings, and, being ill-fed and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation ; and with the progress of physical degeneration, their moral stamina also tends to grow less and less strong. Consequently, the efficiency of labour as a factor in production has a constant tendency to diminish. Effect of
inadequate
consumption
on production.

The stinting of necessities is always economically wasteful ; and there can be little doubt that

Increased consumption necessary,

but only of wholesome articles.

production in India can be greatly increased by increasing the consumption of the people. When, however, we advocate an increase in consumption, we mean increased consumption of those goods which conduce to the health and vigour of the people. In food, nutrition should be the main purpose, and the desire to prefer pleasant to wholesome food should be discouraged. Indulgence in drink and narcotics means not only the waste of money spent on them, but an injury to body and mind. In matters of dress, furniture and dwellings, health, happiness, and morality—not luxury—should be the objects of attainment. Economically, luxury is unproductive, and the demand for luxuries misdirects capital and labour, and leads to waste.

Necessaries of a higher kind: education, sanitation, leisure, recreation.

So much about the physical necessities. But there are necessities of a higher kind which are of as much importance as those we have been discussing. They are education, sanitation, leisure, and recreation. The economic value of education is too well known to be disputed. By increasing the intelligence of the labourer, education adds greatly to his productive efficiency. Sanitation is a question of vital importance in a country like India. Adequate rest after work is necessary in order to prepare the mind and body for further work. Recreation claims the attention of the economist as it may have the greatest influence on happiness and morality. As a celebrated economist has said, "A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen amusement."¹

¹ Devas, *Groundwork of Economics*.

In order to provide for the satisfaction of all these needs, a considerable amount of income is required. The present income of the bulk of the people, as we have seen, is insufficient for an adequate supply of the first necessities of life. When an increase commences, the first few doses will, therefore, go to make up the deficiency on the score of the primary wants, and the later doses will be devoted to the satisfaction of the higher needs.

Considerable
increase of
income
needed.

CHAPTER XII

PUBLIC FINANCE

1. REVENUE

Classification.

THE revenue of the Government of India is derived from various sources. Several methods may be adopted in classifying these sources. The most natural method would be to divide the State income into four parts: (i) the income derived from the possession of State property, *e.g.*, forests, (ii) the profits of commercial undertakings, *e.g.*, the post office, (iii) incidental gains from administrative departments, *e.g.*, the law-courts, and (iv) taxation. Another and simpler method would be to put the first of these three items in one class,* and to divide the revenue into two parts, non-tax-revenue and tax-revenue. No classification can be wholly logical; and it does not matter which one we adopt, provided it does not lead to a confusion of ideas.

Tax revenue
and non-tax
revenue.

The heads of
revenue.

The chief heads of Indian revenue are generally given as follows: land revenue, opium, salt, stamps, excise, provincial rates, customs, assessed taxes,

forest, registration, tributes from native states, interest, post office, telegraph, mint, receipts by civil departments, miscellaneous receipts, railways, irrigation, other public works, and receipts by the military department. It is clear that the first eleven of these heads fall either wholly or partly into the class of tax-revenue, and the rest into that of non-tax-revenue.

The Government of India, in framing their budget, do not professedly accept any of the current theories of the distribution of taxation¹; though it may be said that in fact they follow in general the 'qualified proportional principle,' and the 'progressive' principle² only in special cases, as we shall see presently.

Principles of the distribution of taxation.

¹ A 'tax' is defined by Professor Bastable as "a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." Compare this definition of a tax with that given by Kalidasa, the great Sanskrit poet, who says, "The State takes taxes from the people only to give it back a thousand-fold."

'Tax' defined.

² Although every student of economics is supposed to be familiar with the different alternative principles of taxation that have been suggested by thinkers, yet it will not perhaps be out of place to say a few words about them here. The first and the simplest principle is that the amount of service rendered by the State should be the standard by which to regulate taxation. The principal objection to this theory is that it is not possible to distribute the advantages among individuals, and to charge in proportion. The second principle is that of equality of taxation. All are equally benefited by the State; why should not all pay equally for these advantages? This method of equal contributions per head would be impossible politically, besides being extremely unjust. Thirdly, we come to the widely-accepted doctrine which takes 'faculty' or 'ability' as the measure for

The different theories of taxation.

The tax-system
'plural.'

It is evident that the tax-system of the Government of India is not unitary—that is to say, it does not consist of a single tax (on real property, land rent, capital, income, or any other substance). It rather inclines to the opposite extreme, viz., the multiple tax-system.¹ The taxes are collected from a very large variety of sources.

taxation. 'Ability,' however, is a vague term, and a measure of 'ability' is wanted. This measure may be property, or gross income, or net income. A slight variant of the 'faculty' theory is the 'sacrifice' theory. 'Ability' is objective, 'sacrifice' is subjective. Either of these theories may lead us to two forms of distribution: (1) proportional taxation, in which income is taken as the standard, and the amount of public burdens regulated by it; and (2) progressive or graduated taxation, which places a heavier rate of charge on large than on small incomes, since the ability of the tax-payer is supposed to increase in a more rapid ratio than the increase of his income. The chief merit of the proportional system is its simplicity. It was the accepted doctrine of classical political economy, but progressive taxation is nowadays becoming more popular. The chief objections urged against the latter system are its arbitrary nature, the danger of its evasion, the probability of its harmful effect on the accumulation of wealth, and the relative unproductiveness of the progressive tax. On the other hand, it is held that progressive taxation is more equitable than proportional taxation. The opinions of the great economists are almost equally divided in this matter. An extreme form of the 'progressive principle' would be to substitute 'least sacrifice' for equal sacrifice, which would approximate to socialistic equality. There may be several modifications of the proportional principle, and one of these would be the 'degressive' taxation, a system in which a uniform rate of tax is levied beyond a prescribed limit (*Vide* Bastable, *Public Finance*, and Seligman, *Progressive Taxation*).

¹ The merits of the 'single-tax' system are that the method is simple, the cost of collection is small, and the incidence on the several individuals and classes is precisely known. Among the

The tax-system consists of both 'direct' and 'indirect' taxes. The land revenue, the provincial rates, and the assessed taxes are direct. The customs and excise duties are 'indirect.' The opium revenue partakes more of the character of profits from commercial transactions than of a tax. It must be remembered in this connection that a hard-and-fast line of division cannot be drawn between 'direct' and 'indirect' taxes.¹ There are

Both direct
and indirect.

many defects of the system may be pointed the following:—Its pressure may be extremely heavy at a particular point; it may be easily evaded; there is no possible room for correction, in case there be any error or miscalculation; it may really prove very complex and troublesome; there is the risk of exciting discontent by raising the required sum in a single payment. The chief advantages of multiple taxation are that it bears lightly on an infinite number of points, heavily on none, and has a tendency to bring about equality in the burden falling on the people. But the system is open to the objections that its incidence is not easily ascertained, and that it is prejudicial to the development of industry, irksome and inconvenient to the payers, and very costly in collection. The system which finds most favour in modern countries is 'plural taxation,' which combines, to some extent, the merits of the two opposed systems.

¹ A tax is said to be 'direct' when the burden of the tax falls on the person who pays it; it is said to be 'indirect' when the burden falls on some person other than the person who pays it in the first instance. The great recommendation of 'direct' taxation is its educative influence on the minds of the people. Each citizen knows exactly how much he contributes to the income of the State. If at any time the Government becomes tyrannical or unmindful of the interests of the people, he can refuse to pay taxes, and when an undue burden is put on him, he may resist. Besides, there is the greater facility and lower cost of collection. The drawbacks are: (1) the disagreeable nature of a direct demand and the discontent to which an increase of taxation is

some taxes which stand on the borderland between the two classes—for instance, the registration fees and the stamp duties.

Maxims of
taxation.

Before we pass on to a somewhat detailed account of the various sources of revenue, it would be desirable to state here the chief maxims of taxation, so that we may be able to judge how far they are accepted by the Indian Government in their financial system. They are as follows: (1) Taxation should be productive, for otherwise its very object would be defeated; (2) the State should take as little as possible from the people, consistently with the maintenance of efficiency; (3) taxation should be inexpensive in collection; (4) taxation should retard as little as possible the growth of wealth; (5) it should be justly distributed; (6) it should be certain; (7) it should be elastic; (8) the objects taxed and the periods of payment should be such as suit the convenience of the people; and (9) the tax-

likely to give rise to; (2) the difficulty of assessment; (3) the difficulty of obtaining a due proportion from the poorer members of society; and (4) its comparative inelasticity. The advantages of 'indirect' taxes are that (1) they are not often felt by the payer, and therefore cause him less annoyance; (2) they supply a facility for taxing the smaller contributors; (3) they are productive and, in times of prosperity, that is, they are elastic without undue pressure; and (4) they are collected at a time convenient to the payer. The disadvantages are the facilities which they offer for smuggling, the probability of a shrinkage in bad years, the possibility of their falling on the poor more heavily than on the rich, the greater expense of collection, and their possible harmful effect in disturbing the course of industry. The proper system of taxation seems to be that in which there is a judicious combination of 'direct' and 'indirect' taxes.

system should be adjusted as far as possible to the habits and ideas of the people.¹

The land revenue is, and has always been, the mainstay of Indian finance. The Government base their claim to the land revenue on "the ancient right of the State to a share of the produce of the soil." Successive Governments in India in the past have at all times raised the greater part of their income from the land. This particular tax possesses, therefore, the merits of productivity and of being in harmony with the traditions of the people.

The annual income from this source is about 37.5 crores of rupees (£21.1 millions), or 29 per cent. of the total gross revenue of India and about two-fifths of the total net revenue. The collection of land revenue has increased during the last quarter of a century by nearly 10 crores.

The question whether the land revenue is a 'tax' or a 'rent' is more an academic than a practical one. The official view seems to be to regard it as rent rather than as a tax. But Mr. Baden-Powell holds the opposite view. "The land revenue cannot," says he, "be regarded as a rent, not even in the Ryotwari lands." He goes on to assert, "I should be inclined to regard the charge as in the nature of a tax on agricultural incomes."²

With reference to the land revenue, the tenures are divided into two kinds, *zamindari* and *raiyyatwari*.

¹ A corollary that is often deduced from these maxims is that the first necessities of life should not be taxed.

² B. H. Baden-Powell, *Land Systems of British India*.

Land revenue.

Land revenue
tax or rent?

Zamindari
and *raiyyatwari*
tenures.

When the revenue is assessed by the State on an individual or a community owning an estate and occupying a position identical with, or analogous to, that of a landlord, the assessment is known as *zamindari*; where the revenue is imposed on individuals who are, or who represent, the actual occupants of holdings, the assessment is known as *raiyatwari*. Under either system, there may be rent-paying subtenants. The former system prevails in almost the whole of Bengal, in the United Provinces, the Punjab, the Central Provinces, and parts of Madras; while the latter is found in Bombay and Sind, Burma, Assam, Berar, and the greater part of Madras.

The Revenue Settlements: permanent and temporary.

The Revenue Settlements may be either permanent or temporary. The permanently-settled districts cover most of Bengal and parts of Madras and the United Provinces; while in the rest of India the settlement is for a period varying from ten to thirty years. About 20 per cent. of the total area is held by permanently-settled and 33 per cent. by temporarily-settled *zamindari* proprietors; while the remaining 47 per. cent. is held by temporarily-settled *raiya*ts (or peasant proprietors).¹

Nature of land revenue.

The land revenue appears to be a tax on rent. But the officials hold a different view; they rather regard the rent as a deduction from the revenue. "The peculiarity of Indian rents lies in this fact, that whereas in most countries the land revenue is an assignment from the rent made by the land-

¹The merits and demerits of the permanent settlement will be discussed in a later chapter.

owners to the Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the land-owners."¹

Assessment methods vary according to the kind of estate and its mode of working. But two general principles are found to underlie these methods. One is to fix empirical rates, which are first ascertained only as maximum rates, on the basis of those actually paid in the past, but with such increase as can now be taken with reference to the rise in prices and progress in prosperity, and then to apply those rates in a sliding scale, according to the productivity of particular lands. The other principle is applied to all varieties of landlord estate where there are tenants; it consists in finding out the rents which the tenants actually pay, and then demand from the landlords a fixed proportion of such rents.²

Principles of assessment.

In the temporary zamindari settlements, the Government usually takes about 50 per cent. of the rent as revenue; and in the permanent settlements about 25 per cent. of the rental on an average. The incidence of land revenue on the fully-assessed cultivated area is officially calculated to be under 13 as. (1s. 1d.) per acre in the permanently settled area of Bengal; in the permanently settled tracts of East Bengal it is calculated to fall to about 11 as. per acre, while in those of the United Provinces, it

Incidence of land revenue, per acre,

¹ *Imperial Gazetteer of India.*

² B. H. Baden-Powell, *Land Revenue in British India*, pp. 47, 48.

rises to Re. 1 in Oudh and Re. 1-6 as. in Agra. In the temporarily-settled tracts, the incidence per acre is approximately Re. 1 6 as. in Upper Burma, Rs. 2 11 as. in Lower Burma, Rs. 2 7 as. in Sind, Rs. 2 7 as. in Madras, Re. 1 12 as. in Agra, Re. 1 14 as. in Oudh, Re. 1 12 as. in East Bengal, Re. 1 7 as. in Bombay, Re. 1 3 as. in Berar, Re. 1 1 a. in the Punjab, and 8 as. to 9 as. in the Central Provinces. The rates of revenue vary greatly with the productive power of the soil, advantages of climate and irrigation, and facilities for marketing produce.¹

The question of the burden of the land revenue is one of the most controversial questions in Indian economics and politics. Many of the Indian patriots hold that the burden is oppressive, that it is one of the causes of the extreme poverty of the masses of the people, and that it is a contributory cause of famines. On the other hand, the officials maintain that the land revenue is not excessive, and that it has become increasingly liberal.² It has been calculated that the burden of the land revenue per head of the population of British India is under Re. 1 3 as. (1s. 7d.).³

per head.

Opium.

The production of opium is a Government monopoly in British India. Poppy cultivation is permitted only in parts of Bengal and the United Provinces, and is under the control of the Govern-

¹ *The Moral and Material Condition of India, 1908-9*, pp. 25, 26.

² *Vide R. C. Dutt, Open Letters to Lord Curzon and the Land Revenue Policy of the Government of India, 1902.*

³ *Moral and Material Progress of India, 1908-09.*

ment.¹ Opium grown in the Native States, known as 'Malwa' opium, is permitted to enter British territory only on payment of a heavy duty (Rs. 600 per chest for export and Rs. 700 per chest for consumption). By agreement with the Chinese Government, the Government of India have to lessen the area of cultivation every year. The opium revenue in 1910-11 was about 11·4 crores of rupees. In seven or eight years, this source of revenue will entirely cease to exist. The future diminution and ultimate cessation of opium revenue is a matter of grave concern to the finances of India.

The salt revenue is raised by a duty of R. 1 per Salt. maund on all salt imported into or manufactured in India.² The successive reductions in the duty in 1903, 1905, and 1907 have resulted in a slight diminution of the revenue, but the consumption has increased a good deal. The salt revenue amounts annually to a little less than 5 crores of rupees.

The stamp revenue is derived from two classes Stamps. of stamps, judicial or court-fee stamps, and non-judicial stamps (used in commercial transactions). The amount of revenue realised from this source is

¹ The cultivator has to get a license, and is required to deliver the whole of his outturn of the crude opium to the Government at the fixed price of Rs. 6 per seer. The excise opium, that is, the small quantity required for consumption in India, is made over to the Excise Department, and Rs. 8½ per seer is credited to opium revenue. The rest, known as provision opium, is sold by auction, and is intended for export, mainly to China.

² The production of salt is not a Government monopoly, but in the maritime tracts it is prohibited owing to the difficulty of preventing illicit manufacture.

over 7 crores. The burden of this tax falls on litigants and the commercial classes.

Excise.

The excise revenue is derived from licenses, distillery fees, and duties for the sale of intoxicating liquors and drugs, together with the duty on opium consumed in India. The Government obtain a handsome revenue from this source of over 10½ crores, but their excise policy is condemned by temperance reformers on the ground that it is the duty of the State to prevent harmful consumption. The official defence is that the duty serves as a check on the consumption of intoxicants.

Provincial rates.

The provincial rates consist of cesses on land for roads, schools, etc., for canals and railways, and for village service and patwaries, besides minor rates. The revenue from provincial rates amounts to about eighty lakhs.

Customs.

The customs duties are levied solely for revenue purposes, and are not protective or preferential in their nature. They are not intended to benefit one class or industry at the expense of another. The customs tariff consists of a long list of articles. Special import duties are levied on arms, ammunition, military stores, liquors, opium and its alkaloids, petroleum,¹ salt, salted fish, tobacco, and silver.

Import duties.

General import duties, at the rate of 5 per cent. *ad valorem*, are levied on a large number of commodities, of which a revised list of tariff valuations is usually published every December.

¹ "This duty," says Sir John Strachey, "has the merit of directly affecting no British industry" (Strachey, *India*, p. 182)

There is a general import duty *ad valorem*¹ of 3½ per cent. on manufactured cotton goods, of 2½ per cent. *ad valorem* on vinegar and copperas, and of 1 per cent. *ad valorem* on iron and steel. The free list consists of railway materials, machinery, gold bullion and coin, animals, certain articles of food and drink, raw wool, raw cotton, books, ships, manures, coal, and various other articles. Special countervailing duties are levied on bounty-fed sugar imported from the Argentine Republic and Denmark.

An export duty of 3 annas per maund is imposed on rice. A customs duty of ¼ pie per pound is levied on all tea exported out of India, but the proceeds are paid to a Tea Cess Committee for the encouragement of Indian tea. These duties are, to some extent, in accordance with the principle that export duties should be levied on those commodities only in which the exporting country has practically a monopoly of production. On the same ground an export duty on jute may be suggested. Export duties.

An excise duty of 3½ per cent. *ad valorem* is imposed on the products of Indian cotton mills. This duty is intended to neutralise the protective Excise duty on cotton.

¹ It is necessary to understand the distinction between specific and *ad valorem* duties. A duty is specific when it is levied so much per unit of a particular commodity, it is *ad valorem* when the tax is a certain percentage of the estimated value of the commodity. The chief defect of the specific duty is that it makes no distinction between superior and inferior kinds of goods, and thus prejudicially affects the poor consumers. Its great merit lies in the economy of its collection, and in the fact that it does not subject the importer to inconvenience and uncertainty as to the amount of duty.

effect of the $3\frac{1}{2}$ per cent. duty levied on imported cotton goods.

Character
of customs
duties.

Customs revenue is generally elastic, and tends to expand with the expansion of trade and industry. The customs tariff of India yields annually a revenue of slightly less than 10 crores of rupees. Cotton piece-goods are much the most important source of revenue in the tariff. Of the commodity taxes, the salt and petroleum duties fall on almost the entire community, the cotton tax is paid by a large proportion of the population, the sugar duty affects the middle class, and the rest fall on smaller sections or groups. The duty on imported liquors produces the desirable effect of discouraging, though in a slight degree, the consumption of alcohol.

Their
incidence.

Income-tax.

The progressive or graduated principle is adopted in the assessment of the income-tax. All incomes of less than Rs. 1000 a year are exempted from taxation.¹ Incomes from salaries and pensions or from interest on securities, if amounting to Rs. 2000 per annum, pay 5 pies in the rupee; incomes less than Rs. 2000 pay 4 pies; companies pay 5 pies in the rupee on their net profits; incomes under Rs. 2000 derived from other sources pay according to a graded scale from Rs. 20 on an income of Rs. 1000 to Rs. 42 on Rs. 1999, and 5 pies in the rupee on incomes of Rs. 2000 and upwards. The income-tax is not levied on incomes from land or agriculture.

The revenue derived from the income-tax is about $2\frac{1}{4}$ crores of rupees. The fact that the yield

¹ In the United Kingdom all incomes below £160 a year are exempt.

of the income-tax is so small shows that the comparatively well-to-do classes who pay the tax represent only a very small proportion of the entire community. It serves as a measure of the economic condition of the people. The revenue tends to increase with the general progress of society. In India, however, the expansion of revenue due to this source is not rapid at the present moment.

Registration revenue is derived from documents, which are divided into (a) those of which registration is compulsory or necessary for the validity of the Act, and (b) those of which registration is optional. Practically all deeds transferring immovable property have to be registered. The amount of revenue is about 65 lakhs of rupees. *Ad valorem* fees are charged for registration. Registration

Forest revenue is raised by royalties on, or by the sale of, timber or other produce and by the issue at specified fees of permits to graze cattle, or to extract for sale timber, firewood, charcoal, bamboos, canes, and minor forest produce. The gross revenue derived from forests is a little over 2½ crores of rupees. The immense importance to the country of the preservation of forests has been pointed out in a previous chapter. Forests.

Of the income derived from sources other than taxation, that from railways forms by far the largest proportion. The annual net railway revenue amounts to nearly 20 crores. Irrigation yields a gross revenue of about 5½ crores. The Law Courts, and sometimes the Post Office and the Telegraph, also yield net profits to the Government. Revenue
from other
sources.

Total revenue.

The gross revenue of the Government has nearly doubled during the last fifty years. The total gross revenue now amounts to nearly 120 crores, and the net revenue to about 70 crores.

Now, the question which suggests itself is, How far does this expansion of revenue furnish evidence of increasing prosperity? This question is answered differently by different individuals and parties. The officials would say that general prosperity has undoubtedly increased; some Indian patriots would, on the contrary, regard the increase of revenue as being due to the rapacity of the Government.

The burden of taxation.

According to official calculations,¹ the payment of taxes per head of the population is R. 2 7·7 as. (3s. 3·7d.) per year. If land revenue be excluded, the burden would be R. 1 4·7 as. (1s. 8·7d.). The proportion of taxation to the average income is $8\frac{1}{3}$ per cent.²

¹ It is difficult to say how far these calculations are correct.

² I have purposely omitted the discussion of the difficult and complex question of the shifting of taxation. Most of the taxes are shifted, wholly or partly, by the person on whom they fall to somebody else. There are two kinds of taxes, however, which remain where they are imposed. These are taxes on economic rent and pure profits, or, to use a term which includes both elements, economic surplus. A tax on surplus can never be shifted, because surplus is not a part of the cost of production, but is the result of the process of production. In India, there is no economic rent, and, therefore, a tax on rent may affect the prices of agricultural produce and may thus be shifted. The stamp duties on inheritance, gifts, etc., cannot be shifted. All other taxes tend to be shifted, until they fall ultimately on the surplus. Customs duties, for instance, are almost always shifted, though not necessarily to the full extent. In actual life, there is so

The total revenue of India exceeds one-half of the amount of Imperial receipts in so wealthy a country as the United Kingdom. The officials defend their position by pointing out that the population of British India is more than five times as large as that of the United Kingdom and that the Government of India undertakes many duties outside those that ordinarily fall on the State in England. The critics of the Government reply that though the population of India is five times as large as that of the United Kingdom yet the national income is much larger in proportion in the latter country than in the former. The incidence of taxation on income is thus much higher in India than in England. As for the second point, they argue that it is true that the Indian Government perform such duties as the control of railways, etc., but these are not onerous duties; they yield the State net profits, or in other words, they are concerns beneficial to the Government. The Government of India do not, they say, undertake any of the large schemes of social reform, such as Old Age Pensions, Compulsory Insurance, etc., which are undertaken by the Government of the United Kingdom; neither do they spend as much on education, sanitation, science, art, and other such matters as the civilised governments of Europe and America do.

Comparison
with the
United
Kingdom.

much of economic friction that it is seldom possible to accurately measure the incidence of any tax on the classes or individuals of a community (*Vide* Seligman, *Incidence and Shifting of Taxation*).

2. EXPENDITURE

Gross and net expenditure.

The gross annual expenditure amounts nearly to 120 crores, the net expenditure to about 70 crores.¹

Chief heads.

The chief heads of expenditure are: (1) Debt services, (2) military services, (3) collection of revenue, (4) civil services, and (5) famine relief and insurance.

Debt services.

The debt services include interest (i) on the ordinary debt, (ii) on railway debt, (iii) on irrigation debt, and (4) on other obligations. The total net expenditure under this head is slightly less than $1\frac{1}{2}$ crores of rupees.

National debt.

The amount of debt on the 31st March, 1909, was about 385 crores (£256,684,069). This includes the productive debt for railways of about Rs. 273·5 crores (£182,213,141), and for irrigation Rs. 46 crores (£30,738,991). The ordinary debt amounted to nearly Rs. 65 crores (£43,731,937).² Of the outstanding debt £166·8 millions were held in England, and 134 crores in India. A portion of the debt is permanent, and the rest is either unfunded or temporary.

Burden of debt.

The national debt of India appears to be rather large; but four-fifths of it can hardly be regarded

¹ In the Budget for 1911-12, the net expenditure is estimated at about 117 crores, and a surplus of 1·2 crores is expected.

² Mr. G. K. Gokhale says: "Against this (public debt) the Government of India have their railways and irrigation works, their loans and advances to local bodies, native states, and cultivators, and their cash balances." By deducting these from the total debt, he calculates that the amount of unproductive debt is only £27 millions, or about 40·5 crores.

as a burden, as the State derives income from the undertakings financed by such loans. On the question whether the State should undertake industrial operations or not, opinion, of course, is divided. But there is one advantage when the money required for such undertakings is borrowed by the Government, viz., that the State can get loans at cheaper rates of interest.¹

As for the amount of debt, 107 crores was inherited by the Indian Government from the East India Company; and it is sometimes argued that the debt incurred by a commercial body should not have been fastened on the people of India. That amount has grown by successive additions up to the present figure. The interest charges have also grown. So far, however, from imposing any additional burden on the taxpayer, this increase has had exactly the opposite effect; the reason lying in the growing proportion to the total debt of that part which represents profitable investment in railways and irrigation works. "The unremunerative debt," says Sir G. Fleetwood Wilson,² "has shrunk in the last twenty years from being nearly one-half to being just over one-seventh of the total volume of

Sir Guy F.
Wilson's view

¹ The bulk of the public debt is at $3\frac{1}{2}$ per cent. Mr. Gokhale, in his speech in the Viceregal Council, February, 1911, compared this rate of interest with the rates paid by some other countries, and tried to prove that the credit of India was excellent. "Japan," says he, "borrows at from 4 to 7 per cent.; Russia borrows at about 5 per cent.; Turkey borrows at 5 per cent. and over; China borrows at between 4 and 7 per cent., 4 per cent. in a few cases, 6 and 7 per cent. being the usual rate."

² *Vide* Sir G. Fleetwood Wilson's Budget speech, 1907,

our outstanding loans.”¹ The amount of debt is very often spoken of as huge, but Mr. G. K. Gokhale considers it “as a mere bagatelle.” Sir Guy Fleetwood Wilson, however, regards the unproductive debt as “considerable.”

Loans or
taxes?

The principles which should guide the Government in providing for any expenditure by means of loans may be laid down as follows: (a) the Government should meet all ordinary expenditure out of the ordinary revenues; (b) they should not place the burden on posterity for any improvements which tend to benefit the present generation; (c) when any measure is undertaken of which the benefit is likely to accrue to future generations, it would not be improper to finance such a measure out of a loan; and (d) in case of a heavy and unexpected outlay, which cannot be met out of the ordinary revenues, and which would place an excessive burden on the people if it were met by enhanced taxation, it would be better to have recourse to a loan. Under all circumstances, it is advisable to keep the national debt down at as low a figure as possible.

Military
services.

The net expenditure under the head of military services amounts annually to a little over 30 crores, or 43 per cent. of the total net revenue. This has always been criticised by Indian patriots as an exceedingly heavy charge, but the Government view it as necessary. The question is whether the country is or is not paying too high a price for the peace

¹The critics of the Government would reply that inasmuch as the productive public works are likely to deteriorate in value in the course of time, this is an over-estimate,

and security it enjoys. Critics of the Government think that the expenditure under this head can be curtailed a good deal without running any risk.¹ Of the total expenditure under this head, nearly 28 crores is spent on the army, and the rest on the navy and the defence works.

The charge of collection is of course an absolutely necessary item of expenditure. It comes up to about 9 crores of rupees, or about 13 per cent. of the total net revenue. There seems to be much room for the practice of greater economy in this matter.²

Collection of
revenue.

The next head is that of Civil Services. The expenditure under this head amounts to about 33 crores. It is divided into three sub-heads: Civil Departments, Miscellaneous Civil Charges, and Civil Works. During the last ten years the civil expenditure has increased more than 50 per cent. So far as this increase represents outlay on measures tending to the benefit of the community, nobody has any reason to grumble. But, as a matter of fact, a very large part of the increase has been due to unnecessary multiplication of offices and

Civil Service

Growth of
expenditure.

Causes.

¹ As Russia and Japan are bound by treaties to maintain friendly relations with England, and as the movement towards international arbitration is now gaining ground, it is contended that a reduction of the forces in India may be made with perfect safety. It is further argued that if a part of the Indian forces be really intended to safeguard the interests of England in Asia outside India, England ought to bear the cost of maintenance.

² In the United Kingdom the charges of collection amount to only a little more than two per cent. of the revenue. . . . But as the systems of keeping accounts are different in the two countries, comparisons may not be quite just.

departments,¹ for which the administration of Lord Curzon was mainly responsible. During the years 1901-06, the Government of India were under the demoralising influence of fat surpluses, which enabled them to indulge in increased recurring expenditure. This has now become a serious matter which has compelled the Government, faced with deficits on account of the decrease of the opium revenue, and the creation of the new Province of Eastern Bengal and Assam, to have recourse to fresh taxation. Even during the last four or five years the increase of expenditure has not kept pace with the increase of revenue.²

Extravagance
of Government
departments.

The extravagance of the Provincial Governments is also, in some degree, responsible for the straitened

¹ "The tendency," wrote a high official some years ago, "especially of late years, has been to overdo this superintending and checking system, and the almost invariable remedy for an alleged defect has been the creation of a new department, or the appointment of a special commissioner. It has always seemed to me that reforms should commence at the bottom instead of the top, and that endeavours should be made to strengthen and improve the position of those who are called upon to do the actual work at first hand." For the reduction of public expenditure the following among other measures may be suggested: (1) reduction in the number of officers whose duties are of a supervising, as distinguished from an executive, character; (2) abolition of Commissionerships of Divisions; (3) abolition of unnecessary posts, *e.g.* those of the Inspector-General of Excise, Sanitary Commissioner to the Government of India, etc.; and (4) substitution of Indian for European agency.

² "It will be seen," says Mr. D. E. Wacha, "that, *in spite of enhanced* taxation, the net revenue has grown since 1906-07 to the extent of 2·60 per cent., whereas the net expenditure has grown to the extent of 5·25, or a trifle more than double! What a strange fatality is here!" (*Vide Recent Indian Finance*).

financial position of the Indian administration. In 1910, the Finance Member made an earnest appeal to the Provincial Governments for economy. In February last Mr. G. K. Gokhale proposed a resolution in the Imperial Legislative Council for the appointment of a Committee to enquire into the growth of public expenditure, and although the resolution was rejected, the fact of increase was not seriously disputed. The Finance Member gave the Council the assurance that enquiries would be made by the heads of all departments, who would also in future practise as much economy as possible. The Secretary of State for India has also strongly urged the necessity of curtailing all unnecessary expenditure. This is the least that should be done. Unless and until there is a retrenchment in the expenditure of the Civil Departments, and a substantial reduction is made in the military expenditure, education, sanitation, and social reform will continue to languish for want of funds.

Under the head of Famine Relief and Insurance the Government set apart every year a sum of about a crore and a half of rupees for the reduction of the national debt. This sum was originally intended to be devoted to the construction of such public works as would prevent the recurrence of famines, and to the avoidance or reduction of debt. Some of the Indian statesmen think that this sum of $1\frac{1}{2}$ crores of rupees can now be more profitably spent in undertaking measures of real public utility, such as agricultural education, the organisation of rural credit, and other

Famine Relief
and Insurance.

measures connected with the material improvement of the peasantry, than in reducing the public debt; but the views of the Government are different.

3. PROVINCIAL FINANCE

History. Originally, the whole of the revenue of India was treated as a single fund to be collected into a central account, and from thence doled out piecemeal to the various provinces according to the requirements of each. The Provincial Governments collected and ultimately disbursed a large proportion of the revenues, but as they gained nothing by enhanced efficiency, the development of public revenues did not proceed fast; and as they had no motive for economy the system led to much extravagance. Moreover, there were constant disputes between the Central and the Provincial Governments. Even the minutest items of expenditure had to be reported for the orders of the Government of India. In 1871, Sir Richard Strachey's scheme of reform was given effect to. Certain departments were made over to the Provincial Governments, and they were credited with the departmental receipts together with a lump sum to enable them to meet the expenditure. In 1877, the supreme Government transferred to the financial control of the Provincial Governments all services except those which were found expedient to be kept under central control. In 1882, the system of Provincial finance was still further developed.

The contracts made with the Provincial Governments from this time forward were revised every five years. This system of quinquennial revision was a fertile cause of friction and improvidence and waste. Not only were the Provincial Governments opposed to the system, but it formed the subject of severe criticism in the Indian National Congress. In 1904, it was decided to give to the Provincial Governments a permanent interest in the revenues and expenditure under their control by introducing a scheme of 'quasi-permanent' settlements. A new series of 'quasi-permanent' settlements was concluded in 1907, but had to be completely revised and readjusted immediately afterwards.

In March, 1911, the financial settlement with each of the eight major provinces was made permanent. Succour to a distressed province will in future be given only in the case of a widespread famine; on the other hand, the Government of India will call upon the provinces for aid in case of a war or in a grave financial crisis. Apart from these only special emergencies, however, the settlements will be fixed, rigid, and permanent.

Present
arrangements.

No province shall in future budget for a deficit in its current revenue and expenditure except under abnormal circumstances. It will not be permissible for a Provincial Government to run through its balances, build up a heavy overdraft on the general balances of India, and then have to be set on its feet by Imperial benefactions. If, for any special and temporary reason, a Provincial Government has exhausted its own balances and receives permission

to overdraw, it will have to take a small loan from the Imperial Exchequer and pay interest on it. If, in the last resort, a province finds it impossible to meet its demands, it may have to consider the propriety of raising additional taxation. The settlements will not, however, debar the provinces from sharing in any surplus which the Government of India may be in a position to distribute in a good year. Moreover, the Government will no longer exercise the same minute control over the budgetary arrangements of the provinces as has been the practice in the past.¹

Provincial
Revenues.

The revenue retained by the Government of India for its own purposes and for meeting the expenditure incurred by the Secretary of State in England is described in the accounts as Imperial, and that which is assigned to the Provincial Governments is described as provincial. The expenditure is similarly classified. The principal heads of revenue which are wholly Imperial are: Opium, salt, customs, post-office, telegraph, mint, exchange, and State railways; the principal divided heads being land revenue, irrigation, stamps, excise, assesses, taxes, and forests. On the expenditure side

¹ *Vide* Sir Guy Fleetwood Wilson's Budget speech, 1911. "This measure," in the words of Sir Guy Fleetwood Wilson, "will give local governments a more abiding interest in managing and directing their own resources; it will greatly reduce the occasion for interference by the Central Government; it will stimulate provincial independence and self-reliance. To the Government of India also it ought to mean much. It will relieve us from the unforeseen and indeterminate liability to which the Imperial revenues were formerly exposed by the financial difficulties of any individual province."

of the accounts the charge for military services, debt services, and the charges under certain minor heads are entirely Imperial; general administration is divided; most other important heads of expenditure are provincial.

The net provincial revenue, including assistance from the Imperial Exchequer, in the year 1908-9 amounts to about 30 crores; and the net expenditure also comes up to nearly the same figure.

Provincial
Expenditure.

4. LOCAL FINANCE

Local Government¹ may be considered under three heads: Municipalities, District and Local Boards, and Port Trusts.

The aggregate income of all the municipalities taken together was six crores in 1908-9. Municipal revenue is derived from various sources: Rates and taxes, realisations under special Acts, proceeds of municipal property and grants from the Government. Of the taxes, the most important are those on houses and land. Next in importance are the octroi duties which are levied in the United Provinces, the Punjab, the North-western Frontier Province, the Central Provinces and Berar, and Bombay, where the house and land taxes do not

Municipalities.

¹ The system of Local Self-Government in India was introduced by Lord Mayo and Lord Ripon. The municipal bodies are in general partly elected and partly nominated. They are subject to Government control in all their activities. In 1909 there were 717 municipalities in India. Their functions are similar to those of the Borough Councils and Urban District Councils of England, but their constitution is different.

exist. Besides these, there are taxes on animals and vehicles, taxes on professions and trades, tolls on roads and ferries, water rate, light rate, conservancy rates, and other minor taxes. Under special Acts the municipalities derive income from pounds, hackney carriages, and licenses for the sale of spirits and drugs. Most of the municipal bodies also derive income from rents of lands and houses, sale proceeds of lands and produce of lands, receipts from markets and slaughter-houses, fees from educational institutions, etc. Their income is often supplemented by grants from the Government.

Expenditure.

The main objects for which municipal funds are spent are: Lighting, police, public health and convenience, including water supply, drainage, conservancy, hospitals and dispensaries, vaccination, prevention of plague, markets and gardens, the construction and maintenance of roads and buildings, and public instruction.

The total expenditure of the municipalities often slightly exceeds their ordinary income, and these bodies have to apply to the Government for aid.

Incidence of Municipal Taxation.

The incidence of the municipal rates and taxes on the population was 2·8 as. per head.¹

District and Local Boards.

In rural areas District and Local Boards² perform the duties assigned to municipalities in urban areas.

¹ *Statistical Abstract for British India*, 1908-9, p. 191.

² The Boards contain a varying proportion of elected members in all provinces except Madras, where the elective system is applied only to members of District Boards. The total number

The funds of District and Local Boards are largely derived from rates or cesses levied upon agricultural land over and above the land revenue. From April, 1908, the accounts of the Boards have been excluded from the general provincial accounts, and their funds treated independently in the same way as municipal funds. The Government of India now make a grant-in-aid to the funds of all Boards equal approximately to one-fourth of their income from rates or cesses levied on land. The Boards have also other sources of income, such as cattle pound receipts, educational receipts, medical receipts, tolls from ferries and bridges, and contributions for specific purposes from the provincial funds. Their aggregate income in 1908-9 was $6\frac{1}{4}$ crores.

Income.

The expenditure of the Boards is chiefly for roads and bridges, hospitals, vaccination, conservancy, drainage, water supply, primary education, markets, and rest-houses.

Expenditure.

The incidence of the Boards' rates and cesses is $4\frac{3}{4}$ as. per head of the population.¹

Incidence of
Boards'
Taxation.

The administration of the larger ports is placed by various Acts in the hands of Port Commissioners, who are charged with the provision of suitable

Port Trusts.

of District Boards is at present 194, and of Local Boards 515. Their functions are, in some respects, similar to those of the County Councils and Rural District Councils of England. Their powers, however, are much more restricted than those of the latter bodies.

¹ *Statistical Abstract for British India, 1908-09, p. 105.*

dock accommodation, and other services necessary to shipping. The Port Commissioners are empowered, subject to the control of the Government, to levy dues on shipping and goods, to charge fees for services rendered, to contract loans for port improvement, to maintain the harbour and its approaches, and to erect warehouses, jetties, harbour lights, and docks, for the convenience of traders and shipping.

Chief ports. The chief Indian ports are Calcutta, Bombay, Karachi, Rangoon, and Madras. The approximate incomes of these ports are $1\frac{1}{4}$ crores, 75 lakhs, 25 lakhs, 29 lakhs, and $11\frac{1}{2}$ lakhs respectively.¹ Chittagong is also gradually arising into importance as a port.

¹The Port Trusts have wide powers, but are more subject to control by the Government. Members of these Port Trusts are, for the most part, appointed by the Local Government, and are largely representatives of the local commercial communities.

CHAPTER XIII

THE STATE AND ECONOMICS

SOME of the economic functions of the Government have been discussed in the last chapter. The object of these functions, however, is more political than economic. In the present chapter, a brief account will be given of some of the more direct relations which economic phenomena bear to the State in India.

1. STATE LANDLORDISM

As we have already seen, there is a tendency among Indian officials to regard the Government as the ultimate proprietor of all lands, and to consider the revenue received by the State from the people as in the nature of rent. Attempts are often made to prove the correctness of the view by a reference to past history. The *Imperial Gazetteer* says, "Throughout the periods of native rule, for which we have any historical data, the prevailing custom was for the cultivator to deal direct with the representative of the State, and the whole of the economic rent passed straight from the one to the other. Even when there was an intermediary,

Tendency
among officials
to regard
Government as
universal
landlord.

and when that intermediary enjoyed, to a greater or less degree, the other incidents of proprietary right, he seldom received any substantial share of the profits of cultivation, and such dues as he might intercept would more fittingly be classed as *fees* or perquisites than as *rent* in the proper sense of the term. As the several provinces passed under British rule, the Government at first continued the native practice of taking as land revenue the whole or nearly the whole of the economic rent. When the intermediaries were few or weak, the Government dealt direct with the cultivator, *e.g.* in raiyatwari tracts; where, on the other hand, the intermediaries were numerous and powerful, as in the zamindari tracts of Bengal and the provinces, the Government dealt with these intermediaries, leaving them to collect the rents from the cultivators, and, when paying the proceeds to the State, to retain a small proportion, generally 10 per cent. for their own use. It is from this percentage that payments now representing the net rental have developed." It goes on to say: "The peculiarity of Indian rents lies, therefore, in this fact, that whereas in most countries the land revenue is an assignment from the rent made by the landowners to the Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the landowners."

Legitimate
conclusions
from the
theory.

If this theory of State landlordism be correct, two results will legitimately follow—(a) the landlords will sink into the position of a merely superior kind

of tenants, and (b) the Government will be justified in demanding as its revenue the whole of the economic rent.

But whatever may be the historical value of such a theory, the Government has never put forward a claim to the ultimate proprietorship of all land and to its right to an economic rent. As Mr. B. H. Baden-Powell, a great authority on the subject, says: "Nowhere and under no revenue system does the Government claim to take the unearned increment or the whole of what remains after the wages of labour or cost of cultivation and profits of capital have been accounted for."¹ The Government, as a matter of fact, bases its claim to land revenue on "the ancient right of the State to a share of the produce of the soil"—that is to say, on the historical fact that the rulers of successive Governments in India have at all times raised the greater part of their State income by levying a tax on the land.²

Mr. Baden-Powell's view

Mr. Baden-Powell looks at the matter from a practical point of view. He says, "The British Government has everywhere conferred or recognised a private right in land, and in large areas of country—Bengal, Oudh, and the whole of Northern India, for example—it has expressly declared the proprietary rights of the landlord and the village owners. It is, then, impossible to say broadly that

His standpoint.

¹ Baden-Powell, *Land Systems of British India*.

² This share usually varied from one-sixth to one-tenth during the Hindu period, but was liable to be increased in time of war or of special necessity. Akbar raised this share to one-third of the produce.

the State takes a *rent* from the landholders regarded as tenants. The Government is certainly not owner. The utmost it does is to regard the land as hypothecated to itself as security, in the last resort, for the land revenue assessed upon it." He goes on in the same strain: "After the Government has so distinctly conferred proprietary rights in land, any later use of the term 'universal landlord' applied to Government can only be in the nature of a metaphor. The only function of a landlord that the Government exercises is the general care for the progress of the State, making advances to enable the cultivator to sink wells or effect other improvements, advancing money for general agricultural purposes, suspending or remitting the demand for revenue owing to famine or calamity of season." Mr. Baden-Powell gives his final decision in the following sentences: "The land revenue cannot, then, be regarded as a rent, not even in the Raiyatwari lands. I should be inclined to regard the charge as more in the nature of a *tax* on agricultural incomes."¹

The land
revenue a
"tax."

Regarded from this standpoint, then, the Government is not the ultimate proprietor of all lands. Now, the question arises, can we point to any class which has absolute proprietary rights to the land? Perhaps it would be safe to answer that there are hardly any absolute proprietors in India, but there are various grades of proprietary rights, each of a series of persons having some of the characteristics of a landowner.

¹ Baden-Powell, *Land Systems of British India*.

The proprietary rights may be divided into five main classes :

Various grades of proprietary rights.

- (i) The Government may be the direct owner.
- (ii) The cultivator or landholder may be, for all practical purposes, considered as proprietor, paying revenue to the Government. This is the system which obtains in the raiyatwari tracts.
- (iii) The Government may recognise one grade of proprietor between itself and the actual landholder. The most perfect example of this is found in the zemindar of Bengal.
- (iv) The Government may recognise two grades of proprietors between itself and the actual landholder. This form is found in cases where the overlord's right has not developed so far as to make him sole landlord and all others mere tenants.
- (v) The Government may recognise certain sub-proprietary rights, *e.g.* patni, dar-patni, etc.

Land tenures in India are largely the result of changes and growths. Very often, one set of rights was superimposed upon another, and thus the various grades came into existence.

2. PERMANENT ZEMINDARI SETTLEMENTS

During the early years of the East India Company's rule, the revenue settlement was made for very short periods, often for one year only. This system caused much inconvenience to the Government and great hardship to the people. The Directors of the Company realised the evils of the system, and in a letter to Lord Cornwallis they not only expressed

The early settlements.

Three possible
methods.

their disapprobation of the frequent changes in the revenue settlements of Bengal, but condemned the endeavours which had been made to continually increase the land tax. Lord Cornwallis took up the idea of a permanent settlement which had been advocated by Philip Francis. Three possible methods of settlement in Bengal were open to the Government: (a) a settlement with the raiyats, (b) a settlement with the farmers of revenue, and (c) a settlement with the zemindars. Mr. (afterwards Sir John) Shore advocated the last method as being the only one consistent with good Government and the improvement of the country.

The Per-
manent
Settlement
introduced,
1793.
Objects.

The Permanent Settlement was introduced in 1793. In promulgating the measure, the Government had two objects in view: (1) the security of the revenue; and (2) the hope that if the land revenue were fixed in perpetuity, the landlord would have the greatest inducement to improve his estate in the knowledge that anything he could make from his estate over and above the land-tax would be his private property, and not subject to any imposition by the State. They further expected that this act of generosity on the part of the Government would induce the landowner to be generous towards his tenants.

Views of
earlier
officials.

The prevailing opinion of officials in the early years of the nineteenth century was that the measure was attended with great success. The Commissioners of the Agra province in a circular letter said, "The Permanent Settlement concluded in the Bengal Provinces has notoriously been attended with the happiest success, and the flourishing state of those

provinces must, we think, be ascribed, in an eminent degree, to that wise and salutary measure." They, therefore, recommended the extension of the measure to the Agra province. Many other officials also held the same view, and desired that the Permanent Settlement should be extended to the whole of India.

Later, however, the official view underwent a change; and at the present moment there is almost an unanimity of opinion among officials regarding the failure of the system. The present attitude of the Government towards the measure has been clearly expressed in the Note on the Land Revenue Policy of the Indian Government, 1902, issued in reply to certain criticisms of the late Mr. R. C. Dutt. The Note runs thus: "The Government of India know of no ground whatever for the contention that Bengal has been saved from famine by the Permanent Settlement, a contention which appears to them to be disproved by history; and they are not, therefore, disposed to attach much value to predictions as to the benefits that might have ensued had a similar settlement been extended elsewhere." "As regards the condition of cultivation in Bengal... there is still less ground for the contention that their position owing to the Permanent Settlement has been converted into one of exceptional comfort and prosperity. It is precisely because this was not the case, and so far from being generously treated by the zemindars the Bengal cultivator was rackrented, impoverished, and oppressed, that the Government of India felt compelled to intervene on his behalf.

The present
official
attitude.

“As for the allegation that the Permanent Settlement has been the means of developing in Bengal an exceptional flow of public-spirited and charitable investment, while the Government of India are proud of the fact that there are many worthy and liberal-minded landlords in Bengal as there are also in other parts of India, they know that the evil of absenteeism, of management of estates by unsympathetic agents, of unhappy relation between landlord and tenant, and of the multiplication of tenure-holders or middlemen between the zemindar and the cultivator in many and various degrees are at least as marked and as much on the increase there as elsewhere; and they cannot conscientiously endorse the proposition that, in the interest of the cultivator, that system of agrarian tenure should be held up as a public model, which is not supported by the experience of any civilised country, which is not justified by the single great experiment that has been made in India, and which was found in the latter case to place the tenant so unreservedly at the mercy of the landlord that the State has been compelled to employ for his protection a more stringent measure of legislation than has been found necessary in temporarily-settled areas.”

The experiment a failure.

Independent opinion.

Independent opinion is divided in respect of this question. One view is that it has most effectually safeguarded the economic welfare of the people. The earlier generations of Indian statesmen favoured this view; but the modern trend of Indian opinion seems to be to look upon the measure as a mistake.

Mill's view.

Mr. J. S. Mill wrote, “The measure proved a

total failure as to the main effects which its well-meaning promoters expected from it. They flattered themselves that they had created throughout the Bengal provinces English landlords, and it proved that they had only created Irish ones. They did nothing for the improvement of their estate, but everything for their own ruin. In one generation the ancient zemindars had ceased to exist, and other families, mostly the descendants of Calcutta money-lenders, now occupy their place, and live as useless drones upon the soil which has been given up to them. Whatever the Government has sacrificed of its pecuniary claims for the creation of such a class has at the best been wasted.”¹

Mr. James Mill, in his *History of India*, said: James
opini
“Next after the sovereign the immediate cultivators had by far the greatest portion of interest in the soil. The generous resolution was adopted of sacrificing to the improvement of the country the proprietary rights of the sovereign. The motives to improvement which property gives, of which the power was justly appreciated, might have been bestowed upon those . . . from whom alone the principal improvements in agriculture must be derived, the immediate cultivators of the soil. For the rights of the zemindars a complete compensation might have easily been made.”²

¹ *Vide* J. S. Mill, *Principles of Political Economy*.

² In England the land-tax was made perpetual in 1798, when William Pitt the Younger was the Prime Minister. According to Mr. R. C. Dutt, the English settlement has benefited the landed classes only, but the Bengal settlement has conferred a share of the benefit on the agricultural community.

One good
feature.

So much for the defects of the system; but it undeniably has one good feature. As Mr. J. S. Mill says, "In this ill-judged measure there was one redeeming point. The ryots were reduced to the rank of tenants of the zemindar, but tenants with fixity of tenure. In the parts of India into which the British rule has been more recently introduced, the blunder has been avoided of endowing a useless body of great landlords with gifts from the public revenue; but along with the evil the good also has been left undone."

The defects of
temporary
settlement
system.

Though the Permanent Settlement is open to objection, the system of temporary settlements is not without its defects. It not only means expense and trouble, but the dislocation of business. It has, further, the tendency of checking the improvement of cultivation, and even of paralysing it by an uncertain and ever-increasing State demand. And the shorter the period for which settlements are made, the greater is the degree in which these evils appear. The only solution of the problem seems to be to make the settlements for fairly long periods, say, fifty years, so as to avoid the defects of both the extremes.

Practical
suggestion.

The zemindar's
right to the
soil.

Before leaving this subject, a few words may be said about the zemindar's right to the soil. A considerable difference of opinion exists regarding the question whether the zemindars were originally landlords in the English sense, or only farmers and collectors of revenue. In the great Rent Case of 1865, an authoritative opinion was delivered by the Calcutta High Court, in which the judges held the

view that the Bengal zemindars were, in their origin, not true landowners, but revenue-farmers. Some Indian statesmen, however, regard them as having been real owners of the land, and, in some cases, rulers of portions of the province. The view of the Government of Bengal was clearly expressed in their letter to the Government of India, dated the 24th of June, 1901, in which they said, "But the truth probably lies between the position adopted by the advocates of the two sides of the question, and while there were large numbers of middlemen suddenly converted into landholders, there were also hereditary chiefs with all the attributes of proprietorship that were known in their time in India."¹

Thus whatever may have been the original status of the zemindars, in practice they are and must be regarded as actual proprietors of the land they hold, subject to the right of the Government to land revenue, and of the tenant to whatever rights are vouchsafed to him by law and custom.

The zemindar
a limited
proprietor.

3. TENANCY LEGISLATION²

The object of the tenancy laws of the government in India is to protect the tenant against the effects of an unfair competition, and to secure to him the rights conferred by custom. As a large

Object of
tenancy laws.

¹ *Vide Note on the Land Revenue Policy of the Government, 1902.*

² *Vide Baden-Powell, Land Systems of British India and the Tenancy and Rent Acts of the different Provincial Governments.*

proportion of the population is connected with the land, a summary of the legislative provisions relating to land will perhaps be found useful.

We have already seen that landlord and overlord rights grow up over, and often at the expense of, other rights in land. As time goes on, some of the landlords become predominant, and the rest of the original landholders tend more and more to sink into non-proprietary cultivators or tenants. A certain number of such tenants, however, succeed in asserting themselves, and wresting from the landlords permanent tenures.

The twelve years' rule in Bengal and Agra province.

It is very difficult to draw a line between the tenants who represent the old landowners and those whose position is due to contract. In Bengal and the Agra Province the legislature has avoided the difficulty by enacting a general rule that where any tenant has continuously held the same land for twelve years, he should be regarded in all cases as an Occupancy Tenant. In the Punjab and Oudh, however, the twelve years' rule does not apply; and in the Central Provinces it is only applied in a special and limited way. But in these provinces a number of privileged landholders are recognised as sub-proprietors.

In Bengal three classes of tenants: (1) Tenure-holders, (2) Ryots, (3) Under-ryots. Ryots subdivided into (a) Ryots at fixed rates, (b) Occupancy ryots,

The tenancy law of Bengal divides tenants into three classes: (1) Tenure-holders; (2) Ryots; and (3) Under-ryots. The ryots, again, are divided into (a) Ryots holding at fixed rates (that is, either at a rent fixed in perpetuity or a rate of rent fixed in perpetuity); (b) Occupancy-ryots, that is, ryots having a right of occupancy in the land held by

them; and (c) Non-occupancy ryots. There is, in addition, another class, namely Settled Ryots, that is, those who have for a period of twelve years held as ryots lands situated in any village.*

(c) Non-occupancy ryots.

A Tenure-holder is a person who has acquired from a proprietor or from another tenure-holder a right to hold land for the purpose of collecting rents or bringing it under cultivation by establishing tenants on it; and the term includes the successors in interest of persons who have acquired such rights.

Definitions of the terms.

A Ryot is a person who has acquired the right to hold land for the purpose of cultivating it by himself or by members of his family, or by hired servants, or with the aid of partners; and the term includes the successors in interest of persons who have acquired such rights.

Under-ryots are tenants holding land, whether immediately or mediately, under a ryot.

In Bengal, ryots at fixed rates are the highest class of tenants, and have practically very much the same privileges as the tenure-holder. The rent cannot be enhanced and the holder cannot be ejected, except for some express breach of the conditions of tenancy. All other privileged tenants are grouped together as occupancy tenants. The rest of the tenants are tenants-at-will, who have only the benefit of some protective provisions, *e.g.* notice of ejectment of not less than six months, etc.

Privileges of Ryots at fixed rates.

In the permanently-settled districts of the Agra province, there are certain tenants at fixed rates, just as in Bengal. All other tenants, if they have

Tenant law in Agra province,

held the same lands for twelve years, are occupancy tenants. Tenants of less standing are tenants-at-will. There is also another class, namely, ex-proprietary tenants, who are occupancy tenants in possession of land of which they had once been proprietors; and they have the privilege of a reduced rent (which is usually 25 per cent. below that of ordinary tenants).

in C.P.,

In the Central Provinces, the landowners or Malguzar proprietors have a strictly limited control over a large part of the tenantry, both as regards raising of rents and ejectment. Ejectment of the tenants of the privileged classes can only be effected by a decree of court on very special grounds, and enhancement of rent is restricted. The Central Provinces Tenancy Act mentions specifically *absolute occupancy tenants* who cannot be ejected for any cause whatever, and whose rent must be fixed for the term of settlement. The next class is that of the *ordinary occupancy tenants*. The rights of this class, however, are not growing as in Bengal and the Agra Province. Tenants holding land as a remuneration for village service are specifically recognised in this Act. Ordinary (that is non-occupancy) tenants are protected in various ways.

in the Punjab,

In the Punjab, the occupancy right is purely of natural growth. The Punjab law defines as *occupancy tenants* those who for two generations have paid neither rent nor service to the proprietor, but only shares of the land-revenue, those who are ex-proprietors, those who had settled along with the founder and aided in the first clearing, and those

who had been revenue-assignees and had remained in possession of the land. These naturally-entitled classes are given different degrees of privilege.

In Madras, every tenant is allowed to have in Madras, whatever privilege he can prove. There is no artificial rule about the rate of rent or the limit of enhancement. All contracts, express or implied, are enforced. If there is no contract, the rate is to be that of the Government assessment, or, failing that, the customary rate of the locality. Tenants in general can only be ejected pursuant to a decree of court, but they can always relinquish the land at the end of the year.

In Bombay, the holder of the land is either in Bombay, a direct occupant paying revenue to the Government, or is an inferior occupant paying rent to some superior. In the latter case, if there is an agreement, the terms alone determine the features, rent-charges, and liabilities of the tenancy; if not, then the usage of the locality is referred to.

In Oudh, an attempt was at first made to intro- in Oudh. duce the policy of the Agra Province of ignoring the overlords and dealing with the villagers as proprietors, but after the mutiny a settlement was made with the Talukdars. This necessitated an elaborate series of provisions as to the protection to be afforded to tenants in the Taluks. The rights of the tenants were recognised and protected by the tenant law of 1886, which ensured permanent occupancy to hereditary tenants, and the limitation of their rents.

4. THE STATE AND INDUSTRY

The government in India has always maintained a policy of non-interference or *laissez faire* in matters of industry and trade. Its connection with them is, in fact, of an indirect kind. The growth of industry is made possible only because of the security which the country enjoys under the Government. But active steps are rarely, if ever, taken by the State to promote industrial development. It must be admitted, however, that just at the present moment the Government is taking some interest in these matters, and the movement for promoting home industries is now receiving some amount of support at its hands. Orders have been given to the effect that stores required by the Government should, as far as practicable, be purchased in India, and a preference should be given to Indian over foreign manufactures, provided that the quality is sufficiently good and the price not unfavourable. From time to time monographs are issued dealing with the position of some leading industry. The Department of Commercial Intelligence also publishes much valuable information, and thus helps to diffuse knowledge regarding existing manufactures and future possibilities. The local governments often institute special enquiries to ascertain the prevailing industrial conditions. Industrial conferences and exhibitions are sometimes held under the auspices of the Government. Endeavours have been made during the last few years in most of the provinces to improve the

Laissez faire
policy of
government.

In recent years,
some interest
evinced in
industrial
matters.

domestic cotton industry by introducing better types of handlooms and superior methods of weaving. In Madras, successful experiments have been made in the process of chrome-tanning. The Government have also given some encouragement to technical and commercial education by offering scholarships to deserving young men, and by helping some of the private associations.

These measures sum up the activity of the State in the matter of the encouragement of industry. But, taken together, they do not amount to much. In this respect the Indian Government compares very unfavourably with the other civilised Governments. In Germany, the United States, Canada, and Australia, the State does everything in its power to promote national industry. In Hungary, where the conditions are in many respects similar to those of India, the State renders immense help to industry. In addition to the maintenance of a protective tariff and the indirect support given to indigenous products by the guarantee that all requirements of the authorities shall be supplied by home industry, the State has made various legislative provisions for the encouragement of industry. The main provisions of Act 3 of 1907 relate to (1) exemption from taxation and dues and from road rates; (2) reduced rates for railway transport and concessions in respect of customs and excise duties, and of expropriation; (3) the delivery of industrial salt at a price below that usually charged; (4) the encouragement of the building of workmen's dwellings; (5) the development of industry by a

Steps taken by
other civilised
governments.

guarantee that all public contracts shall be placed with Hungarian firms; and (6) encouragement of industry by direct grants of money (subsidies).¹ As is quite natural to expect, these measures have resulted in a great expansion of production and trade.

If the narrow conception of the functions of the State be discarded, and an all-round development of the community be taken as the object of the State, the *laissez faire* policy of the Indian Government cannot be defended. Regarded from this standpoint, the Government has surely failed in its duty. But whatever may have been its shortcomings in the past, it is not too much to expect that the Government will in future recognise its responsibilities and turn its earnest attention to this matter.

5. THE PROTECTION OF INDUSTRY

The abstract question whether Free Trade or Protection should be adopted by a State in its commercial policy would form more fittingly the subject of discussion in a treatise on General Economics than in a hand-book of Indian Economics. But the arguments of the two schools may be briefly summarised here so that they may be helpful to the solution of our concrete problem. The advocates of Free Trade point out the following advantages of the system: (1) International trade is like internal

Merits of Free Trade

¹ *Vide* Alexandre de Hottan's article in the *Economic Journal*, March, 1911, p. 37.

trade; the freer it is, the greater are the advantages to both parties; by allowing trade to be absolutely unfettered, every one is able to buy in the cheapest and to sell in the dearest market, and the gains of all are at a maximum; (2) every nation is in a position to develop its natural advantages to the utmost, and then the world's total wealth is enhanced, because of the distribution of productive energies in the most economical fashion; and (3) free Trade means goodwill among nations and among sections of a community. To these arguments the opponents of the system would reply that the analogy between internal trade and international trade is not quite correct; that when an industry in one country is threatened with destruction by a similar one in another, it is no solace to the first that the world's wealth is being augmented at the cost of its own; and that, far from promoting goodwill, Free Trade may produce the result of placing one country in economic subjection to another.

not recognised
by Protec-
tionists.

The reasons that have been usually advanced in favour of Protection are the following: (1) It is necessary to restrict imports in order to secure a surplus of exports so that there may be a balance of trade favourable to the country; (2) protection is beneficial to agriculture as well as to industry, because the resulting increase of wealth and population is likely to afford a larger market for the food and raw material of the neighbourhood; (3) protection has a tendency to increase wages and to raise the standard of living of the labourer; (4) it furthers all-round economic development and secures national

Merits of
Protection.

Defects.

industrial independence; and (5) under the fostering care of the State infant industries are protected against unfair competition during the period of their growth, and thus saved from extinction. The usual objections to Protection are: (1) In principle, it is destructive of all foreign trade and the moral and intellectual benefits resulting therefrom; (2) it prevents a country from producing as much in the aggregate as it might produce in the absence of protection; (3) it does not really protect, because it destroys as many industries as it artificially fosters; (4) it diverts capital from its natural channels; (5) it tends to demoralise the industrial classes and to render industry unproductive; (6) it benefits the producer at the expense of the consumer, and is thus a robbery of the many for the benefit of the few; (7) it involves interference of the State with trade and industry, and it often produces political corruption; and (8) it causes national animosities.

Element of truth in each theory.

Without entering upon a detailed criticism of the arguments and reasonings of the two rival parties, it may be remarked here that in their enthusiasm for their respective favourite doctrines, the advocates of each go a little too far in their particular direction. Although some of the positions occupied by the extremists on each side is untenable, there is an element of truth in each of the two opposed doctrines. Cosmopolitanism is an excellent ideal, but a far-off one. So long as the different nations exist, each one of them should be allowed to develop itself in the best way it can. Free Trade means rivalry among the industries of different countries, and

when such industries are on a footing of equality, it helps to make each of them stronger; but when the struggle is between a strong industry and a weak one, the weak is sure to be pushed out of the field unless it is backed up by the State. Even such an ardent supporter of Free Trade as Mr. J. S. Mill admits that in the "infancy stage of an industry protection is useful." The conclusion, then, is that Free Trade should be the general policy of States; but, under certain conditions, Protection is not only defensible but is positively beneficial.

Mill's concession in favour of Free Trade.

So much as regards the abstract side of the question. Now let us consider the matter from the Indian standpoint. At the present moment India is, in the main, an agricultural country. "A nation," says List, "which only carries on agriculture is an individual who in his material production lacks one arm."¹ Producing only raw materials, she imports manufactured goods, and is, in the words of the great economist, "like an individual with one arm, which is supported by a foreign arm."² The development of manufactures is thus absolutely essential to the well-being of India.

List's views.

¹ List, *National System of Political Economy*. List clearly points out the defects of an exclusive pursuit of agriculture in these words: "In a country devoted to mere raw agriculture, dullness of mind, awkwardness of body, obstinate adherence to old notions, customs, methods, and processes, want of culture, of prosperity, and of liberty prevail. The spirit of striving for a steady increase in mental and bodily acquirements, of emulation, and of liberty, characterise, on the contrary, a state devoted to manufacture and commerce."

² List, *National System of Political Economy*.

Nascent industries have no chance of success against foreign competition.

But the Indian industries which have been recently started, and those which are to be started in future, will have no chance of success if they have to withstand the competition of the well-developed and strong foreign industries. All the industrially-advanced countries of the world have afforded protection to their industries during the period of their infancy. The protective policy of Cromwell and Colbert laid the foundation of the industrial greatness of England and France respectively. Even at the present day, Germany, the United States, the British Colonies, Japan, in fact almost all civilised countries, maintain the policy of Protection. England is almost alone in this matter; but her Free Trade policy is consonant with the economic doctrine—followed even by the Protectionists—that raw materials should not be taxed. The conditions of England, however, are quite different from those of India; and a protective tariff in India is likely not only to assist her industries, but to produce revenue urgently needed for education, sanitation, and social reform.

Indian opinion
“overwhelmingly
protectionist.”

Indian opinion is, as Professor Lees-Smith remarks, “overwhelmingly protectionist.”¹ As early as in 1879, Mr. (afterwards Justice) K. T. Telang, made a powerful appeal for the protection of Indian industries. The late Mr. Justice Ranade always used in his speeches and writings to dwell on the necessity of the adoption of a policy of protection towards the nascent industries. All the prominent Indian statesmen of the present day hold Pro-

¹ H. B. Lees-Smith, *India and the Tariff Problem*.

tectionist views, and their views are shared by many Englishmen conversant with the economic conditions of India. Lord Minto said the other day that the future of India depended very largely upon what could be done for the development of Indian industries. From a manufacturing point of view India was a young country. Canada was also a young country, and it could not have become the great country it was now without a high tariff wall against the products of the United States. The Canadians had created their manufactures, and had become strong by the artificial aid given to their own industries. Of course, India was not in the same position as Canada; it did not touch up with the territory of any great manufacturing Power. But it did touch up against competition, and if they wanted to create great industries in India, he did not see how they could do so without something like Tariff Reform.¹

Though Indian statesmen advocate a system of Protection, they are not blind Protectionists. They are fully alive to the fact that Protection will lay a burden on the consuming public, and entail on them great sacrifices. They consider it expedient to make those sacrifices, because they think that the loss is sure to be more than counterbalanced by the gain in respect of the resultant increase of productive power. They do not, however, desire that the policy of protection should be extended to each and every industry. They would advocate pro-

Indian
statesmen
not blind
protectionists.

¹ Lord Minto's speech at the Central Asian Society, May 17, 1911, reported in the *Times*.

tection only for those industries which may have a reasonable chance of success. The ultimate ideal of the so-called Indian Protectionists is Free Trade. They hope that a time will come when protection, having served its purpose, will no longer be needed.¹

6. INDIA AND IMPERIAL PREFERENCE

We now come to an important practical question allied to, and yet different from, the one we have just treated. In discussions about Imperial preference, India is generally left out of account; and those who allude to India look upon the matter not from the Indian but the English standpoint. Sir Roper Lethbridge says, "In any reasonable scheme for the Commercial Federation of the British Empire, India must occupy the chief place after the Mother Country. At this moment, among the Constituent States of the Empire, she is at once the largest producer of food and raw material, and one of the largest consumers of manufactured products. And potentially, with her 300,000,000 of thrifty, industrious, and progressive workers and consumers, she is a commercial unit of greater importance in the world, whether for exports or for imports, than almost any other."²

Sir R. Leth-
bridge's view :

Sir Roper places a very high ideal before the eyes of Indian statesmen. He holds out the hope that the future commercial treaty between India

¹ Even List admitted that when nations have attained to their full powers, Protection is apt to check progress and lead to decadence.

² *Vide* Sir Roper Lethbridge, *India and Imperial Preference*.

and the rest of the Empire will involve the recognition of India as a sovereign State. But he would not allow India to afford protection to her own industries against British goods. Wherein, then, will the sovereignty consist?

Recognition of India as a sovereign State, but no protection against British goods.

Sir Roper's general conclusions from his own arguments are that (1) the moment Imperial preference is established vast advantages, direct and indirect, will at once accrue to India; (2) every branch of industry in every province of India will at once be revived and stimulated, and the Indian peoples insured against famine; (3) the stability of Indian finance, now absolutely at the mercy of foreign Governments, will be assured on the cheapest terms by Imperial preference; (4) reasonable and adequate protection will be secured for the nascent industries of India, and (5) in every way, both Indian sentiments and Indian interests will receive from Imperial preference that consideration which is their due, and which can only be secured on these lines.¹

His conclusions.

These are undoubtedly great advantages, and Imperial preference would be worth having if it could secure even a small part of any of them. But to the Indian statesman the solution of the problem does not seem to be so very satisfactory. Sir Roper appears to be very friendly to India, but when we examine his proposals we find that it is the interests of England and not those of India which he has at heart. The articles which will receive protection under his scheme are tea, tobacco, coffee, cocoa, and

Articles which would receive preference under Sir R. Lethbridge's scheme.

¹ The same sort of argument is also advanced by other Tariff Reformers (Vide *Speaker's Handbook*, Tariff Reform League).

The most
important
articles of
export to
United
Kingdom,

indigo. As for tea, it is almost entirely a European industry, and any benefit which may accrue to it will not be much appreciated by the Indian people.¹ Tobacco is a promising industry, and, if protected, it may thrive better, but it is very doubtful if indigo can be resuscitated by any artificial means. Coffee and cocoa are very minor industries, and they may be left out of account. Taken together, these five industries represent only a very small proportion of the exports of India. We must look to other articles, therefore, to make the scheme really useful to India. But Professor Lees-Smith seems to judge the situation correctly when he says: "As regards the ten chief exports from India to the United Kingdom, representing 90 per cent. of the total, no preference is possible unless we are willing to raise the price of raw materials essential to our industries or of foodstuffs. From the nature of our conditions, therefore, we have nothing substantial to offer."² The ten articles he mentions are jute, tea, wheat, hides, oil seeds, raw wool, jute manufactures, raw cotton, rice, and lac. As Professor Lees-Smith points out, no preference is possible in jute and lac, for India possesses a practical monopoly of these articles, and there are no competitors to defend her against. In the matter of jute manufactures, the only rival is Dundee. As for tea, India does not want any protection. The remaining articles are

¹ Besides, the conditions of labour which prevail in the tea plantations are so objectionable that educated Indians would rather see the industry die out than flourish.

² *Vide* H. B. Lees-Smith, *India and the Tariff Problem*.

either articles of food, *e.g.* rice and wheat, or raw materials of industries, such as hides, oil seeds, raw wool, and raw cotton. Preference can be given to these industries only by taxing the importation into the United Kingdom of the same articles from other countries, and thus raising the prices. But it does not seem at all probable that any substantial rise in the prices of those articles will be permitted in the United Kingdom.

not likely to receive preference.

It is clear, then, that India is not likely to gain much by a preference from the United Kingdom. Her trade with the colonies is very small, and no system of preference from them will be of any real use to her. Neither has the Empire anything to gain by the proposed system, as India has nothing to offer to the Empire.

Neither United Kingdom nor India has anything to gain by the scheme.

Sir Roper Lethbridge is perfectly right in holding that "in India Protection for nascent Industries is specially needed by local circumstances." But India wants protection against Great Britain, for the principal competitor with regard to many of the rising industries of India is Great Britain herself. It does not, however, seem probable that Great Britain will tax herself to benefit India. The real solution of the problem from the Indian standpoint thus lies in granting India fiscal freedom such as is enjoyed* by the self-governing colonies, so that she may arrange her tariff in the way she finds it best suited to her own requirements.

Fiscal freedom needed for India.

APPENDIX A

INDIAN CURRENCY

Pie	$= \frac{1}{2}$ penny.
Pice (3 pies)	= 1 farthing.
Anna (12 pies)	= 1 penny.
Rupee (16 annas)	= 1s. 4d.
	= 0.324 dollar.
	= 0.65 yen.

A lakh (lac) is 100,000 rupees and a crore is 100 lakhs.

APPENDIX B

FLUCTUATIONS IN PRICES BETWEEN 1861 AND 1897

A general rise of prices took place about 1860. With 1861-65.
the suppression of the Mutiny and the transfer of the administration to the Crown, there commenced a new era of commercial and industrial activity. The resources of the country were developed by the construction of roads and railways, the improvement of harbours, and the extension of irrigation. The cotton famine caused by the American War of Secession (1861-65) gave a great impetus to the cultivation of cotton in India, which, while the war lasted, brought large profits to the cultivator and the merchant. The influx of the precious metals which had begun about the time of the Mutiny was thus further stimulated, and from about the second year of the war a great rise of prices took place throughout the cotton-growing districts of Western and Central India, as also in a smaller degree in other parts of the country. Prices were also raised by the famine of 1861 in the Upper Doab of the province of Agra and the neighbouring districts of the Panjab and Rajputana, and by the scarcity in Cutch.

On the collapse of the inflation caused by the American 1866-70.
War, prices would have fallen but for the great famine of 1866 in Orissa, which extended into Bengal proper, Bihar, Madras, and the eastern part of the Central Provinces. Another notable famine—that of 1869—affected Western Rajputana and parts of Northern India, and the extension of scarcity, towards the west and south, produced a rise of prices in Bombay, the Central Provinces, and Hyderabad.

During 1871-75 prices were not seriously disturbed 1871-75.
by any calamity except the scarcity in Bihar of 1874,

and although large purchases of grain were then made by the Government, and scarcity prevailed in the adjoining districts of the United Provinces, the disturbance of prices was not widely felt. The export trade in rice expanded greatly in 1872-73, and was on a large scale throughout the decade 1871-80. It showed greater contraction in 1874, the year of the Bihar famine, than in the Deccan famine three years later.

1876-80. In this quinquennium occurred the great famine of 1877-78, which affected an enormous tract in Western and Southern India, and extended with diminished intensity into the north, causing a general rise of prices of food-grains all over India. The export trade in wheat, which had begun in a small way after the opening of the Suez Canal in 1870, received a check in the years 1878-80.

1881-85. Speaking generally, all crops except rice were good or abundant during these years, though there was scarcity in a portion of the Panjab in 1884, and distress in parts of Bengal and Madras in 1885. The rice crop was bad between 1883 and 1885 owing to drought and floods, but wheat was plentiful, and the average price for all grains was low.

1886-90. It is difficult to find adequate reasons for the great rise in prices which took place during these five years, for the 1889 famine in Ganjam (accompanied by distress in Orissa and scarcity in Bihar) was only of local importance, and prices had already reached their highest point in 1888. The export trade in food-grains was not larger than in the preceding quinquennium.

1891-95. The high prices ruling during 1886-90 were still further raised in 1891-92 by prolonged drought, causing scarcity and distress in Madras, Bombay, the Deccan, Bihar, and Upper Burma. A strong Indian demand for rice was coupled with large exports, and at the same time there was an unprecedented exportation of wheat owing to the failure of crops in Europe, so that Indian prices rose almost to famine levels. With better seasons prices fell, but the lowest point reached in 1891-95 was still above the average level of the previous

quinquennium ; and, as in that period, the importation of silver for coinage continued on a large scale until the closure of the mints in June, 1893.

The year 1896-97 was one of intense and widespread 1896-97. famine. The climatic conditions in the autumn were generally most unfavourable, and it was certain by the end of November that famine must supervene over a great extent of the country. It was most severe in the North-West Provinces and Oudh, and in the Central Provinces, where the calamity was seriously aggravated by the fact that in these territories there had been two previous years of short harvest. The winter rains, however, did good to the greater part of Madras, Bengal, Western India, and Rajputana, and also the greater part of the Panjab. The prices of food had been higher than usual in Northern and Central India before the failure of the autumn rains ; but they had been moderate in Bengal, Madras, and Bombay up to September, 1896. In September, 1896, prices rose suddenly, and in October famine prices were reached in Northern and Central India, though in Bengal, Madras, and Bombay the highest level was not reached till some months later.

APPENDIX C

Average Prices of Commodities in England in 1901-10,
as compared with those of 1867-77 ; the prices of 1867-77
being taken as 100 :¹

Vegetable food,	-	-	-	65
Animal food,	-	-	-	88
Sugar, coffee, tea,	-	-	-	48
				<hr/>
Total food,	-	-	-	70
Minerals,	-	-	-	89
Textiles,	-	-	-	69
Sundry materials,	-	-	-	73
				<hr/>
Total materials,	-	-	-	76
				<hr/>
Grand total,	-	-	-	73

¹ Vide *Journal of the Royal Statistical Society*, 1911.

APPENDIX D

AVERAGE MONTHLY WAGES (IN RUPEES) IN THE DIFFERENT PROVINCES IN 1873 AND 1909¹

	1873			1909		
	Able-bodied agricultural labourer.	Menial (syce).	Common Mason, Carpenter, or Blacksmith.	Able-bodied agricultural labourer.	Menial (syce).	Common Mason, Carpenter, or Blacksmith.
Burma, -	13.5 to 14.3	13 to 14.1	26.5 to 30.7	13.9 to 15.6	12.36 to 14.2	26.6 to 33.5
Ebassam, -	6.5 to 6.6	5.8 to 6.3	9.6 to 14.6	9.61 to 10.9	8.3 to 9.3	15.6 to 24.3
Bengal, -	4.2 to 4.33	4.72 to 4.83	7.53 to 9.83	6.8 to 7.3	6.2 to 6.8	11.9 to 15.2
United Provinces, -	3.8	4.4	9.5	Not given	Not given	Not given
Oudh, -	3.5	4.5	7.4	"	"	"
Rajputana, -	5	5.5 to 5.8	10.2 to 12.8	3.52 to 4.5	4.7 to 7	11.7 to 21
Central India, -	4.5 to 5	5.5 to 6	12 to 12.5	7.5	5.5 to 6.5	18.8 to 19.7
Punjab and N.-W. F. Province, -	5.2	5.6	12.8	10.8	7.8	25
Sind, -	10 to 12.5	8 to 10	22.5 to 25	12.5	12.5	23.5 to 30
Bombay, -	7.3	8.5	18.3 to 24.2	9	9	19.5 to 24.1
Central Provinces, -	4	5.3	12.6	5.7	7 to 7.7	22.5 to 26.7
Berar, -	5	7	19.5	10	10	22.5 to 30
Hyderabad, -	5.1 to 8	6 to 7	12.8 to 15	8 to 11	8 to 12	20 to 25
Madras, -	3.9	5.7	12.7	4.5	6.3	13.8 to 15.5
Mysore, -	5.8 to 7.8	5.1 to 6.1	14 to 18.8	9.5	9	17.5 to 22.5
Coorg, -	7.5	8	22.5	7 to 9	8 to 10	19 to 30

¹ Vide *Prices and Wages in India*, 1910. The wage statistics are unsatisfactory and not wholly reliable.

APPENDIX E

JOINT-STOCK COMPANIES IN 1900 AND 1909 ¹

	1900.	1909.
Banking and loan, - - - -	407	507
Insurance, - - - -	43	62
Navigation, - - - -	9	17
Railways and tramways, - - -	18	26
Other trading companies, - - -	252	608
Tea, - - - -	129	137
Other planting companies, - - -	19	27
Coal mining, - - - -	34	122
Gold mining, - - - -	7	9
Other mining and quarrying companies,	13	47
Cotton mills, - - - -	152	218
Jute mills, - - - -	21	34
Mills for wool, silk, hemp, etc., - -	25	14
Cotton and jute screws and presses, -	113	143
Flour mills, - - - -	18	28
Land and building, - - - -	4	29
Sugar, - - - -	11	21
Other companies, - - - -	65	107
	<hr/>	<hr/>
Total, - - - -	1340	2156

¹ *Statistical Abstract for British India, 1908-09.*